

North America E-Commerce:

B2B & B2C

May 2003



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Welcome to eMarketer

Dear Reader:

In the 2002 *North America E-Commerce* report, there was hope that the worst of the recession was behind us and that a healthier economy would reinvigorate consumer spending and business investment. However, while the nation has seen moderate growth in the economy, signs of a sustained recovery have proven elusive. Indeed, as the US enters the second quarter of 2003, an ebb in Middle Eastern tensions has not given the boost to investor and consumer confidence that is typically associated with greater certainty in the economy.

That said, the mixed economic landscape has not been enough to stymie the powerful positive evolution of Internet commerce. Fourth quarter online sales increased by 34.3% from the third quarter of 2002, compared to an increase of only 5.8% in total retail sales (online and offline) from the third to fourth quarter. While these gains are greater than those seen last year, eMarketer still looks cautiously toward the future.

eMarketer expects B2C revenue to grow to \$133 billion by 2005. This estimate anticipates steady growth, but at a declining rate, as the Internet population becomes more diverse, consumers feel increasingly comfortable shopping online, and broadband creates new opportunities for innovative marketing and transaction techniques.

When it comes to B2B e-commerce, survey data indicates that businesses are continuing to invest in e-business initiatives. More than 80% of US companies have experimented with some form of online procurement, although most are channeling less than 10% of their total procurement online.

Rather than starting new, ambitious e-business projects in 2002, many companies have focused on internal integration during the past year, while trying to make the most out of past technology investments.

Canadian companies have been similarly cautious in their deployment of Internet-based solutions, with Canada's public sector surprisingly leading the private sector in its use of e-business technology.

Nonetheless, in both the United States and Canada, businesses are continuing to incorporate the Internet as an indispensable part of their regular day-to-day operations.

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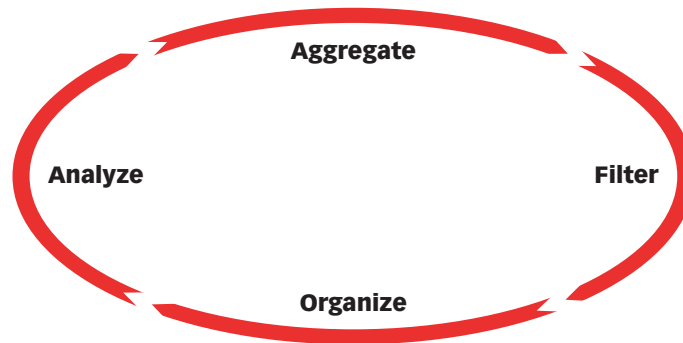
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eMarketer's approach to market research is founded on a philosophy of aggregating data from as many different sources as possible. Why? Because there is no such thing as a perfect research study and no single research source can have all the answers. 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

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 Projections

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 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 and the International Telecommunication Union. Using this data as the benchmark for 2000 and 2001, 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, comScore 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. Two Steps Forward, One Step Back

“Because of 9/11 and our necessity to fight a new kind of war, America is losing its peace dividend at a time when - because of our high debt, over-consumption and reflective trade deficit - we cannot afford to.”

– William H. Gross, Managing Director, PIMCO

In last year's *North America E-Commerce* report, eMarketer saw a US economy that was struggling to escape recession after the wild ride of the late 90s. While it appears as if the lowest point of the recession is behind us, there is still great uncertainty. The war with Iraq is expected to take a heavy economic toll, and there is debate as to what the short-term and long-term effects on terrorism may be. Indeed, there is ample opportunity for pessimism.

The economy grew at just a 1.4% annual rate in the final quarter of 2002. This represented the lowest since the second quarter of 2002, when the economy expanded at a below-par 1.3% rate. Many economists think it may do even worse in the first quarter of 2003 as the lackluster job market and war uncertainties close the wallets of US businesses and consumers.

The 1.4% growth rate represented a dramatic drop from the 4% reported in the third quarter of 2002. It continues the pattern seen since the end of 2001, a seesaw that has seen alternating quarters of recovery and retreat. This ambiguous signal – accompanied by war worries, a volatile stock market, and the difficulty in developing sustained profitability – has discouraged businesses from investing in capital and hiring. While after-tax profits of US corporations grew at a 4.1% rate in the fourth quarter of last year, up from a 2.1% growth rate in the third quarter, they fell by 4% overall in 2002, on top of a 10% drop in 2001.

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While consumers have picked up some of the economic slack, they are starting to become more cautious as well. The nation's unemployment rate rose to 5.8% in February 2003 as 308,000 jobs disappeared. According to a March 2003 report from the Department of Labor, new claims for unemployment benefits fell by 25,000 to 402,000, a two-month low. However, that still represents the level of a sluggish economy. In research done by The Economist, a consensus forecast found that the average percent change for the US GDP for 2003 is about 2.8%.

Consensus Forecasts of Percent Change in US Real GDP, 2002 & 2003

Low



Average



High


 2002

 2003

Source: *The Economist*, September 2002

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B. US B2C E-Commerce Market Growth

“Online shopping is thriving both in war and peacetime conditions. This war [in Iraq] was a planned war and therefore online retail disruption was minimized compared to the shock of September 11th, 2001, when sales dropped 37% versus the previous day. With the economy stuck in second gear, consumers are flocking to the Internet to reap price savings and stretch their dollars further.”

– Chuck Davis, CEO, Bizrate.com

While the sputtering recovery of 2002 failed to bring sustained growth to the US economy at large, B2C e-commerce continues to grow rapidly – much faster, in fact, than total retail and food sales, according to US Commerce Department figures. While 2002 represented a relatively strong year for e-commerce; Internet-based sales remain at only about 1.6% of total US retail sales in the fourth quarter 2002.

Quarterly B2C Revenues

“The question about whether e-commerce would continue to grow after the economic boom has certainly been answered.”

– Lisa Strand, senior analyst, Nielsen//NetRatings

After a retreat in 2001, which saw the first three quarters remain almost flat, e-commerce came on strong last year. After the traditional first quarter dip following the holiday season, online sales in the second quarter rose about \$1.5 billion from the first quarter of 2002 and kept growing from there, culminating in an all-time high of \$14.3 billion.

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The Department of Commerce estimated that total online retail sales in 2002 reached over \$45.5 billion, an increase of nearly \$10 billion from 2001 and a sum that reflects higher growth in 2002 than in 2001.

US Online Retail Sales, by Quarter, 2000-2002 (in billions)

Q1 2000	\$5.81
Q2 2000	\$6.35
Q3 2000	\$7.27
Q4 2000	\$9.46
Full year 2000	\$28.89
Q1 2001	\$8.26
Q2 2001	\$8.25
Q3 2001	\$8.24
Q4 2001	\$11.18
Full year 2001	\$35.93
Q1 2002	\$9.88
Q2 2002	\$10.27
Q3 2002*	\$11.06
Q4 2002**	\$14.33
Full year 2002**	\$45.54

*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; *revised; **preliminary*
Source: US Department of Commerce, February 2003

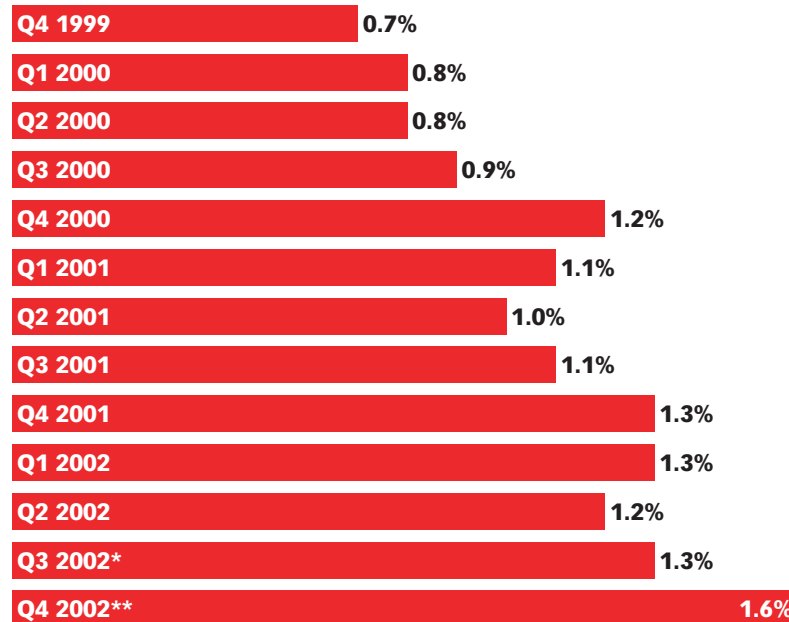
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The Department of Commerce also estimated that retail e-commerce accounted for 1.6% of total commerce in the United States, a 25% jump from the third quarter of the year and nearly a 19% increase from the fourth quarter of 2001. The figure also represented the highest percentage since the DoC started tracking e-commerce in the fourth quarter of 1999.

US Online Retail Sales as a Percent of Total Retail Sales, by Quarter, Q4 1999-Q3 2002



*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; *revised; **preliminary*
Source: US Department of Commerce, February 2003

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A number of factors continued to this growth, including:

- A greater number of Internet users
- More collective experience with the Internet
- Growth in broadband, providing a smoother e-commerce experience
- Growing sophistication by retailers in retention, cross-selling and up-selling

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While this surge could be interpreted as the e-commerce growth engine again kicking into high gear, most likely it is due to the slow but steady recovery from 2001, which saw e-commerce drag as Web sites on which customers relied during the dot-com era went bust. It's also possible that retailers are discounting less than they did in 2001 because of a greater profitability mandate and less competition. Buy.com, for example, has reserved more of its coupon codes this year for new customers rather than offering blanket discounts as it had in years past.

Quarter-over-Quarter Percent Change in US Total Retail Sales* and Online Retail Sales, Q1 2000-Q4 2002

	Total	Online retail sales**
Q1 2000	-9.3%	6.1%
Q2 2000	8.4%	9.2%
Q3 2000	-0.8%	14.5%
Q4 2000	5.8%	30.2%
Q1 2001	-10.6%	-12.7%
Q2 2001	11.2%	-0.1%
Q3 2001	-2.9%	-0.1%
Q4 2001	9.5%	35.7%
Q1 2002	-13.1%	-11.6%
Q2 2002	10.9%	3.9%
Q3 2002	0.3%	8.0%
Q4 2002	5.1%	29.3%

*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 2003

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Consumer Online Buying Model

"Consumers are making a subtle shift from exclusively purchasing from brick-and-mortar retail stores to making a few of their purchases online. Three or four years ago, the online shopper was just dipping a toe in the water. But we're increasingly seeing the Internet become an important channel during the season."

– Ken Cassar, senior analyst, Jupiter Media Metrix

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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 model for 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 a variety 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

eMarketer’s e-commerce calculations assume that the population of potential Internet buyers consists of those individuals aged 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.)

In 2003, 225.6 million Americans are at least 14 years of age. According to the US Census Bureau data, the US adult population remains relatively stable over any five-year period.

US Population Ages 14+, 2000-2005 (in millions)

2000	221.3
2001	223.2
2002	225.6
2003	228.0
2004	230.5
2005	233.0

Source: eMarketer, interpolated from US Census Bureau figures, April 2003

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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. PC sales have begun a mild recovery after a brutal past two years.

Harris Interactive has found that, over the past four years, Internet usage by PC ownership has risen rapidly, from just over 65% in early 1999 to 92% at the end of 2002. Consumers are rapidly reaching a point where virtually every PC user will be online from at least one location.

PC and Internet Usage in the US, 1995-2002 (as a % of the adult population)

	Use PC from any location	Use Internet from any location**	% of computer users who are online
September/November 1995	50%*	9%	18%
June/September 1996	54%	19%	35%
May/June 1997	61%	30%	49%
January/February 1998	63%	35%	56%
January/February 1999	63%	41%	65%
June/July 1999	65%	48%	74%
December 1999	69%	56%	81%
April/May 2000	69%	57%	83%
October/November 2000	74%	63%	85%
March/April 2001	72%	64%	89%
September/October 2001	73%	64%	88%
February/March 2002	74%	66%	90%
November/December 2002	74%	67%	92%

*Note: *estimated from other sources; **includes home, office, school, library or other location*

Source: Harris Interactive, February 2003

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About 61% of the US population aged 14 and older is online. This Internet penetration rate will increase to 67% by 2005. However, the marginal rate of Internet penetration is expected to decrease over time, as the Internet market begins to be saturated.

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For 2003, of the 228 million Americans 14 and older, 139.3 million are Internet users, as the following chart illustrates.

Internet Users Ages 14+ in the US, 2000-2005 (in millions)



Source: eMarketer, April 2003

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Online Shopping and Buying

eMarketer estimates that 73% of US Internet users aged 14 and over are Internet shoppers; that is, they research products and services online that they are considering for purchase.

eMarketer has divided the Internet population into several levels. Of all users who are ever online, active Internet users are those who are online at least once per month, and are most likely to engage in Internet shopping or buying. According to the Conference Board, about 90% of all Internet users get online at least once per month.

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.

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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, 2003

	Description	Definition	as a % of Internet users in 2003
Level I	"Internet Users"	Ever online	100%
Level II	"Active Users"	Refers to those who are online at least once in a 30-day period	90%
Level III	"Shoppers"	Refers to those who browse, research or compare products online	71%
Level IV	"Buyers"	Refers to those who have made at least one purchase on the Internet within the past year	56%

Source: eMarketer, April 2003

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For Internet users in the US, researching and purchasing products are popular activities online. According to AOL and RoperASW, 77% of Internet users research products online, 60% purchase online, and half of all surveyed Internet users book travel online.

Popular Online Activities among Internet Users in the US, 2002 (as a % of respondents)

Communicating with friends and family

90%

Doing research of any kind

88%

Getting information about products to buy

77%

Getting driving directions and/or maps

67%

Checking the weather report

66%

Sending/receiving pictures from family and friends

63%

Making purchases

60%

Getting local entertainment information

51%

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Booking travel reservations or tickets

50%

Communicating with business associates

50%

Online instant messaging

48%

Looking up addresses and/or phone numbers

45%

Listening to music

40%

Banking

36%

Downloading music files

33%

Watching video clips

29%

Tracking stock portfolio

28%

Taking part in an online auction

24%

Filing or paying income taxes

20%

Getting coupons

17%

Trading stocks

10%

Downloading books

10%

Note: n=1,001 Internet users ages 18+

Source: America Online/RoperASW, April 2003

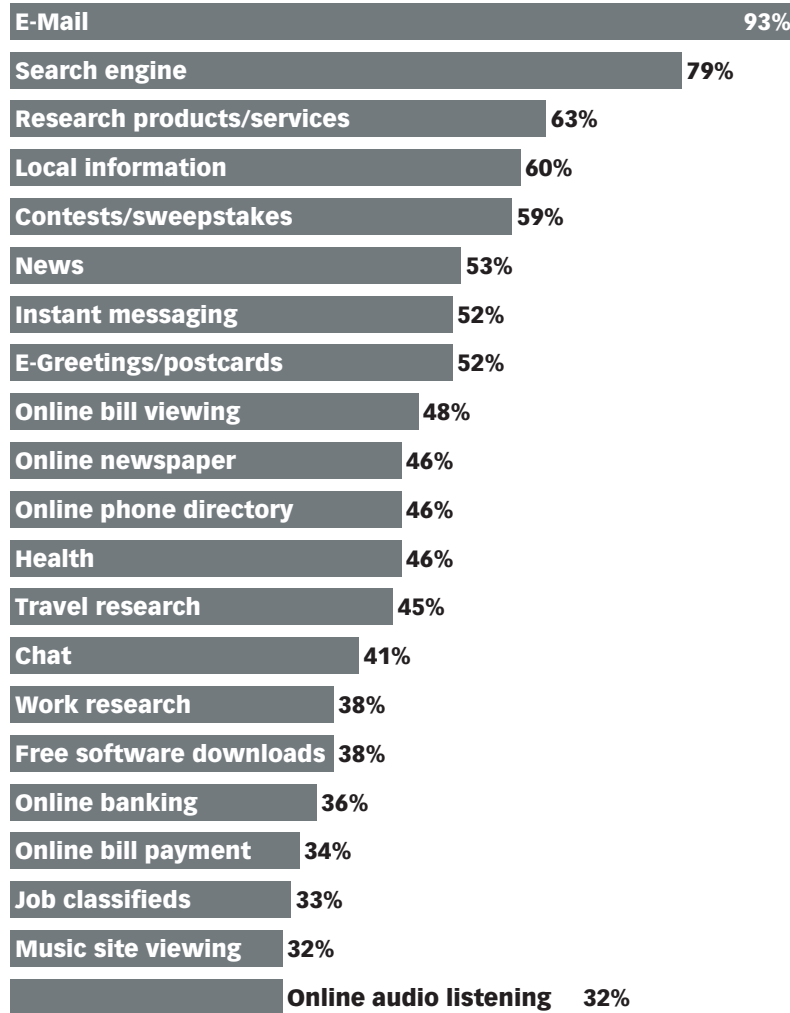
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Jupiter Research also found online shopping to be among the most popular Internet activities.

Popular Online Activities among Internet Users in the US, September 2002 (as a % of respondents)



Note: n=4,341; multiple responses allowed

Source: Jupiter Research, September 2002

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America Online and RoperASW have also found minimal variation in terms of the kinds of research consumers seek when planning a purchase.

How US Adult Internet Users* Use Online Sources When Planning to Make a Purchase, 2002 (as a % of respondents)

Start the process of learning which product and/or service to buy

63%

Learn about features and benefits of a specific brand of a product and/or service

62%

Learn about different brands of a product and/or service

61%

Get advice on which brands of a product and/or service to buy

56%

Learn where the item wanted to purchase is available

56%

Compare prices of the product and/or service

56%

Make final decision on what brand to buy

50%

*Note: *among respondents who said the Internet is the best source of information when planning to make a purchase*

Source: America Online/RoperASW, April 2003

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Based on comparative estimates from market research firms and benchmarks from the Department of Commerce, 73% of Internet users aged 14 and older will engage in online shopping in 2003.

Online Shoppers Ages 14+ in the US, 2000-2005 (as a % of all Internet users ages 14+)



Source: eMarketer, April 2003

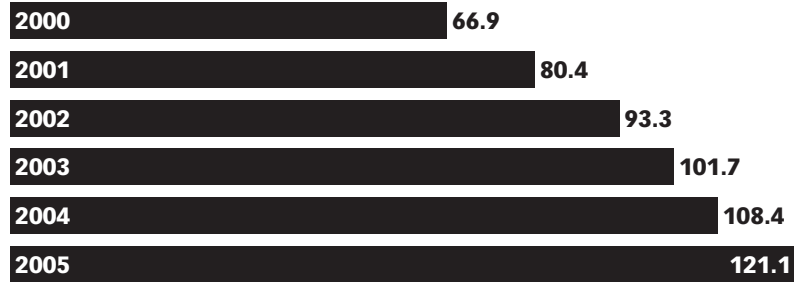
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By applying this rate (73% for 2003) to the population of Internet users aged 14+ (139.3 million) eMarketer derives that approximately 101.7 million Americans 14 and older currently shop online. Within two years, the number of Internet shoppers will grow to a little over 121.1 million, as the chart below illustrates.

Online Shoppers Ages 14+ in the US, 2000-2005 (in millions)



Source: eMarketer, April 2003

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While these numbers reflect aggregate shoppers, consumers use the Internet differently for different purchases. America Online and RoperASW found that complex products such as airline tickets, financial products, and PC software tended to be among the leaders while clothing and movie tickets trailed in the number of responses. Curiously, cell phones, which generally come with a complex group of features and very complex plans, ranked near the bottom.

Purchases for which US Internet Users Used the Internet As Their Primary Research Source, 2002 (as a % of respondents)

Airline tickets, hotel reservations or travel packages

71%

Software for a personal computer

46%

Tickets to entertainment event such as sporting event, concert, museum or play

44%

A personal computer or hardware for a personal computer

40%

A book

39%

Investment such as shares, mutual funds or insurance

37%

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Purchased or leased a car, truck or SUV

 35%

Electronic equipment of any kind

 34%

Personal finance products such as credit card and checking accounts

 29%

Videos/DVDs

 28%

Music, CDs or cassettes

 27%

Wireless service plans

 27%

Video game cartridges for game consoles

 27%

Children's toys

 25%

Tickets to movies

 22%

Cellphones

 21%

Health and beauty aids or prescriptions

 18%

Clothing

 17%

Note: n=1,001 Internet users ages 18+; respondents were asked, "Thinking back to when you last purchased the following items, which one source did you use the most to gather information for your purchase?"

Source: America Online/RoperASW, April 2003

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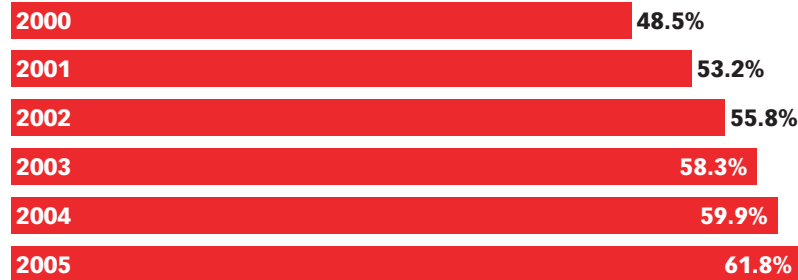
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Online Buyers

As the next chart illustrates, of Internet users age 14 and older, 58.3% will purchase goods and services online in 2003. By 2005, this percentage will grow to over 61.8%. These figures are population averages, and do not describe the intensity with which those who purchase goods do so.

Online Buyers Ages 14+ in the US, 2000-2005 (as a % of all Internet users ages 14+)



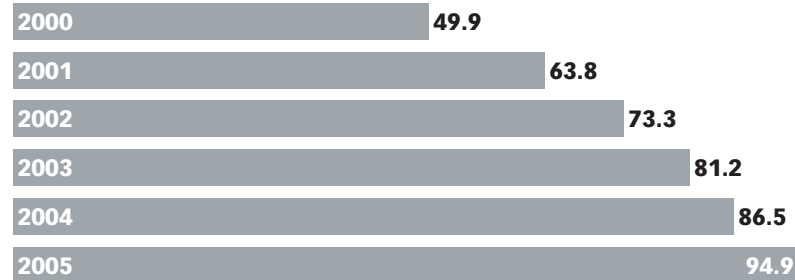
Source: eMarketer, April 2003

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Applying the percentages above to the number of Internet users yields the *number* of Internet users who purchase online. For 2003, the figure equals nearly 81.2 million, and is expected to grow to 94.9 million by 2005.

Online Buyers Ages 14+ in the US, 2000-2005 (in millions)



Source: eMarketer, 2002

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The University of Maryland surveyed US adults about their e-commerce activities in 2001 and 2002. Compared with 2001 results, some activities saw a decline the following year, especially purchasing small-ticket items.

US Adults' E-Commerce Activities during the Past 12 Months, 2001 & 2002 (as a % of respondents)

Purchased an item costing between \$10 and \$100 online



Booked travel arrangements online



Purchased an item costing over \$100 online



Purchased an item costing less than \$10 online



Purchased an item from another person, such as through an auction site or classified



Sold an item to another person, such as through an auction site or classified



■ 2001

■ 2002

Note: 2001 n=418, 2002 n=422

Source: Center for e-Service at the Robert H. Smith School of Business, University of Maryland; Rockbridge Associates, Inc., February 2003

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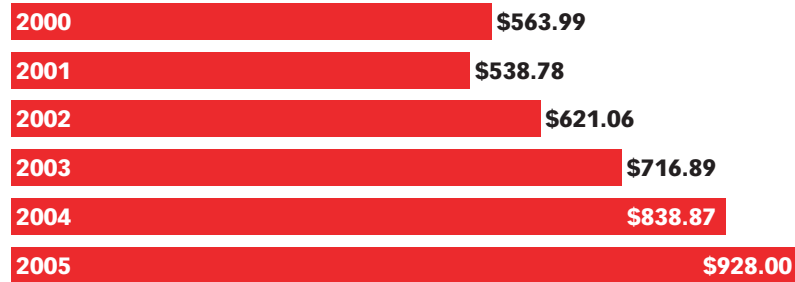
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Per Capita Online Spending

Currently, Internet users who purchase online spend, on average, \$716.89 per person on retail products and services (excluding travel) over the course of the year. In 2002, the average annual retail spend per online Internet buyer increased about 15.4%, about the same rate of growth as 2001. eMarketer expects this number to grow to \$928 by 2005.

Average Annual Amount Spent Online among US Internet Users Ages 14+, 2000-2005



Source: eMarketer, April 2003

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The eMarketer 2003 estimate for online spending per capita is slightly higher than the average calculated by Arbitron/Edison Media Research, but within the range they have seen since 1999.

Average Amount Spent per Online Buyer in the US, 1999-2002 (per year)



Source: Arbitron/Edison Media Research, February 2003

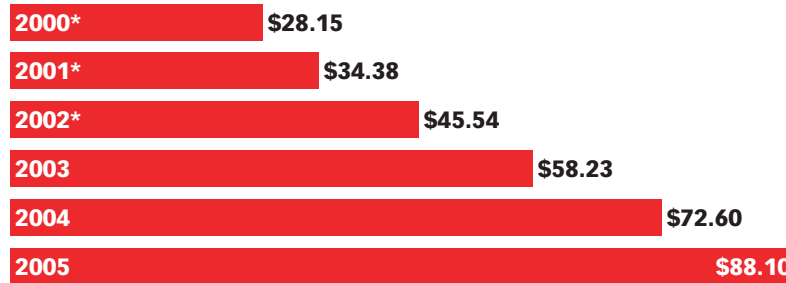
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Using eMarketer's estimate for the per capita online amount spent and multiplying it by the 81.2 million online buyers, total retail B2C e-commerce revenues for 2003 are estimated to be \$58.2 billion. By 2005, this figure will grow to \$88.1 billion, fueled by the increasing adoption of broadband, which enables a richer and smoother e-commerce experience, increased familiarity and comfort with using the Internet to make purchases, and improvements driven by retailers that cause both the number of online buyers and the per capita annual expenditure of those buyers to rise.

US Online Retail Sales, 2000-2005 (in billions)



Note: *eMarketer's year 2000-2002 baselines are derived from US Department of Commerce figures
Source: eMarketer, April 2003

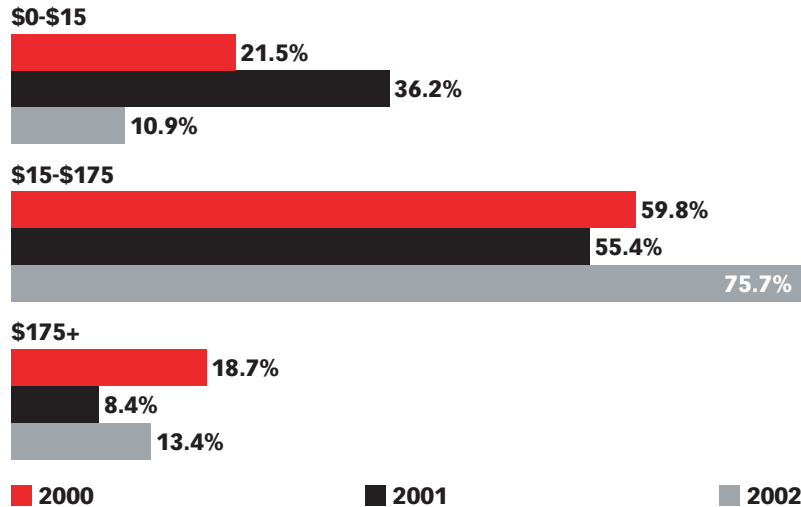
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eMarketer's estimate of per capita online spending yields a monthly average of \$59.74. A recent study by UCLA found that the most common range of monthly expenditures was between \$15 and \$175. The study found that, between 2001 and 2002, the percentage of online buyers purchasing a total of \$15 or less of goods decreased dramatically, while those spending \$175 or more increased slightly.

US Online Spending per Month, 2000-2002 (as a % of online buyers)



Source: UCLA Center for Communication Policy, February 2003

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Trends that began to manifest themselves in 2001 continued to shape online transactions in 2002. Among them, experience online has become a major influence on shopping and purchasing behavior; the broadening of the demographic and socioeconomic composition of Internet users; and the shake-out among online retailers, which has meant that surviving firms are those with better sites, more effective marketing, and higher levels of customer service. But eMarketer now adds a fourth factor, the increasing availability and adoption of broadband, along with the accompanying improvements in marketing and transaction techniques.

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eMarketer uses the US Department of Commerce as a historical benchmark in estimating retail e-commerce. (The agency does not include travel revenue in its estimates.) As a result of the growing online consumer population, and the positive effects of broadband adoption, eMarketer has calculated that total B2C e-commerce spending in 2003 (including retail sales and travel purchases) rose from \$51.6 billion in 2001 to \$70.3 billion in 2002. In 2003, consumers spent \$58.2 billion on retail goods and services and \$31.9 billion on travel.

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

2000*	\$41.55
2001*	\$51.58
2002*	\$70.34
2003	\$90.13
2004	\$109.70
2005	\$133.30

*Note: *eMarketer's year 2000-2002 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, April 2003

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The above estimates are 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 2003 are expected to be approximately 28% higher than in 2002. (By comparison, total e-commerce sales in 2002 increased 36.4% from 2001) Projecting from 2002 to 2005, the compound annual growth rate for B2C e-commerce revenues will be 23.75%. This rate of growth is more modest than other firms and reflects an economic rut that has been slower to break free than previously thought. The growth rate is significantly lower than rates predicted by market research firms during the Internet peak of 1999.

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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*	\$28.15	\$34.38	\$45.54	\$58.23	\$72.60	\$88.10
Online travel	\$13.40	\$17.20	\$24.80	\$31.90	\$37.10	\$45.20
Total B2C revenues	\$41.55	\$51.58	\$70.34	\$90.13	\$109.70	\$133.30

*Note: *eMarketer's year 2000-2002 baselines for retail sales are derived from US Department of Commerce figures (US Department of Commerce does not include travel in its B2C figures)*

Source: eMarketer, April 2003

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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 2005. As the table illustrates, total B2C e-commerce will triple from \$41 billion in 2000 to \$133.3 billion in 2005.

US Consumer Online Buying and Shopping Grid, 2000-2005 (in millions and % penetration)

	2000	2001	2002	2003	2004	2005
INTERNET USERS*						
US population ages 14+ (US Census)	221.3	223.2	225.6	228.0	230.5	233.0
Total US internet users	124.0	142.8	152.8	162.0	168.0	171.4
Internet users ages 14+	102.9	120.0	131.4	139.3	144.5	155.3
Online penetration among population ages 14+	46.5%	53.8%	58.2%	61.1%	62.7%	66.7%
SHOPPERS						
% Internet users ages 14+	65.0%	67.0%	71.0%	73.0%	75.0%	78.0%
Shoppers ages 14+	66.9	80.4	93.3	101.7	108.4	121.1
BUYERS						
% Internet users ages 14+	48.5%	53.2%	55.8%	58.3%	59.9%	61.8%
Buyers ages 14+	49.9	63.8	73.3	81.2	86.5	94.9
Average annual purchase per online buyer	\$563.99	\$538.78	\$621.06	\$716.89	\$838.87	\$928.00
Online retail sales	\$28,152	\$34,382	\$45,540	\$58,228	\$72,599	\$88,103
Online travel revenues	\$13,400	\$17,200	\$24,800	\$31,900	\$37,100	\$45,200
Total US B2C e-commerce revenues (incl. online travel)**	\$41,552	\$51,582	\$70,340	\$90,128	\$109,699	\$133,303

Note: *eMarketer's internet user figures are based on the ITU baseline data from 2000 and 2001; the age 14+ group represents roughly 90% of all users according to the August 2000 Department of Commerce Survey; **eMarketer benchmarks it's B2C retail revenue figures against US Department of Commerce data, for which the last period measured was Q4 2002; the travel component was formulated based on aggregated data Source: eMarketer, April 2003; various, as noted, April 2003

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Comparative Estimates

“Online is more resistant to shocks in the economy because consumers want to always get a good deal. This is the last retail arena to take a hit.”

– Chuck Davis, CEO, Bizrate.com

Comparative Estimates of US Online Shoppers and Buyers

eMarketer estimates that approximately 73% of teen and 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 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.

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According to UCLA, online shopping and buying remain the fifth most popular activities on the Internet. Communication tasks such as e-mail and instant messaging reign supreme above Web surfing and browsing. While most activities have declined slightly since 2000, e-mail and instant messaging has held steady from 2001 to 2002, and reading news has jumped up a bit after dipping in 2001. The low numbers of online shoppers and buyers reported by UCLA Center for Communications along with the low average purchase price reported by the Center puts its estimate far below those of the Department of Commerce estimates.

Five Most Popular Online Activities in the US, 2000-2002 (as a % of respondents)

E-Mail and instant messaging



Web surfing and browsing



Reading news



Accessing entertainment information



Shopping and buying online



2000

2001

2002

Source: UCLA Center for Communication Policy, February 2003

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eMarketer's estimate for online shoppers is higher than those of several other researchers, but lower than that of AOL/RoperASW.

Comparative Estimates: Online Shoppers in the US, 2002 (as a % of Internet users)

AOL/RoperASW, April 2003 (1)

77.0%

eMarketer, April 2003 (2)

73.0%

Jupiter Research, November 2002

53.0%

UCLA Center for Communication Policy, February 2003 (3)

44.5%

Note: (1) at-home Internet users ages 18+; (2) figures based on US residents ages 14+; (3) shopping and buying online
Source: eMarketer, April 2003; various, as noted, 2002 & 2003

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While eMarketer is inclined to favor a relatively liberal estimate for shopping, our estimate of online buyers is more conservative. Data from AOL and Roper Starch indicates that a far higher percentage US consumers have purchased online for the past five years.

Online Buyers in the US, 1998-2002 (as a % of respondents)



Note: n=1,001 Internet users ages 18+; respondents saying they regularly, occasionally or hardly ever make purchases online
Source: America Online/RoperASW, April 2003

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Our analysis is based on inferring the percentage of teen and adult Americans who purchased based on historical Department of Commerce data, and projecting that out at a growth rate, which is based on analyzing data from numerous national studies and surveys. In addition, our estimate is logically lower than that of the Pew Internet & American Life Project, which didn't include teens that generally lack a credit card, as well as TowerGroup, which measured likelihood to purchase within the next 12 months. This is, understandably, a larger number.

Comparative Estimates: Online Buyers in the US, 2002 (as a % of Internet users)

eBrain Market Research, May 2002

75.0%

The Conference Board/ NFO WorldGroup/ Forrester Research, January 2003

68.2%

TowerGroup, December 2002 (1)

68.0%

Pew Internet & American Life Project, November 2002 (2)

62.0%

AOL/RoperASW, April 2003 (3)

60.0%

eMarketer, April 2003 (4)

55.8%

Arbitron/Edison Media Research, September 2002 (5)

55.0%

UCLA Center for Communication Policy, February 2003

39.7%

Taylor Nelson Sofres, June 2002 (6)

32.0%

Note: (1) likelihood to purchase in the next 12 months; (2) Internet users ages 18+; (3) at-home Internet users ages 18+; (4) figures based on US residents ages 14+; (5) Internet users who have ever made an online purchase; (6) bought or ordered goods or services on the Internet during the past month

Source: eMarketer, April 2003; various, as noted, 2002 & 2003

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eMarketer's estimates of B2C e-commerce revenues are flanked by a wide range of comparative figures from various market research firms. The following chart shows how eMarketer's figures, plus numbers from several other firms, stack up against each other for the period 2000 to 2005. In terms of comparative estimates, our estimate is extremely close to the estimate by Arbitron/Edison Media Research.

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Online consumer sales in 2002 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 for several years onward, as the online buying market begins to become saturated.

For 2003, eMarketer's estimate of total US B2C e-commerce revenue is somewhat more conservative than most. The variation in the forecasts is quite large, however, as the following chart illustrates.

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

	2000	2001	2002	2003	2004	2005
comScore Networks, Inc., February 2003 (1)	–	\$53.1	\$73.2	–	–	–
eMarketer, April 2003 (2)	\$41.6	\$51.6	\$70.3	\$90.1	\$109.7	\$133.3
Forrester Research, August 2002 (3)	–	\$53.1	\$72.1	–	–	–
GartnerG2, December 2001 (4)	\$44.1	\$61.8	\$91.9	\$125.3	\$168.8	\$227.7
Giga Information Group, November 2001	\$43.9	\$60.0	\$75.0	\$100.0	–	–
Yankee Group, December 2001	\$36.6	\$57.2	\$86.6	–	–	–

Note: (1) excluding auctions; (2) eMarketer benchmarks its B2C e-commerce revenue figures against US Department of Commerce data, for which the last period measured was Q4 2002; (3) Forrester Research bases historical data on comScore figures; (4) includes Canada
Source: eMarketer, April 2003; various, as noted, 2001-2003

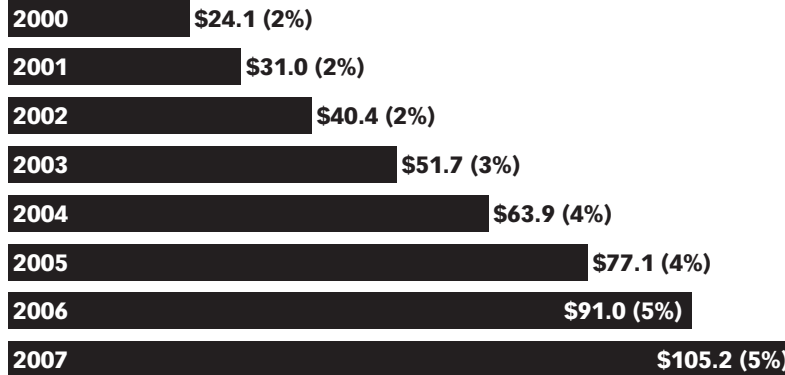
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According to Jupiter Research, online retailing is expected to grow to over a \$100 billion market by 2007. The market researcher sees the online market's share of total retailing increasing up to that year, when it will eventually capture 5% of all US transactions, up from \$40.4 billion in 2002.

Online Retail Sales in the US, 2000-2007 (in billions and as a % of total retail sales)



Source: Jupiter Research, November 2002

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When looking at aggregate numbers, it is easy to think of consumers as identical. Of course, the truth is very different. Such factors as online experience, age, gender, ethnic origin, and income can have varying degrees of impact on how likely a consumer is to shop. In addition, there are many features Web sites can implement that will have different degrees of impact on customer satisfaction.

A. Multi-Channel B2C Buying and Selling

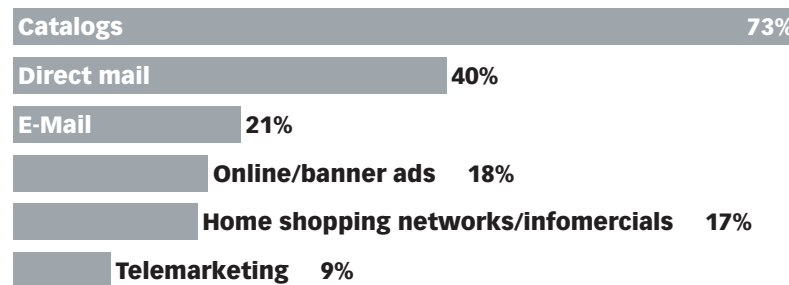
“[Multi-channel retailers are] learning the Web is important to building their brand equity and maximizing lifetime customer value.”

– David Alschuler, SVP of e-business and enterprise applications,
Aberdeen Group

One of the great lessons to come away from the Internet boom, as scores of pure-play retailers foundered, was that consumers shop for multiple items in multiple ways across multiple channels. This is true in cases of direct marketing.

According to Direct Magazine and Yankelovich, over 70% of consumers reported being receptive to catalogs, whereas telemarketing received the lowest degree of receptivity. That catalogs ranked as high as they did may be connected to Direct Magazine's involvement in the study. E-mail fared slightly better than banner advertising; about a fifth of the respondents reported being receptive to these forms of direct marketing.

Channels US Consumers Who Are Responsive to Direct Marketing Use to Seek Information or Make Purchases*, 2002 (as a % of respondents)



Note: multiple responses allowed; *during six months prior to survey
Source: Direct Magazine, Yankelovich, August 2002

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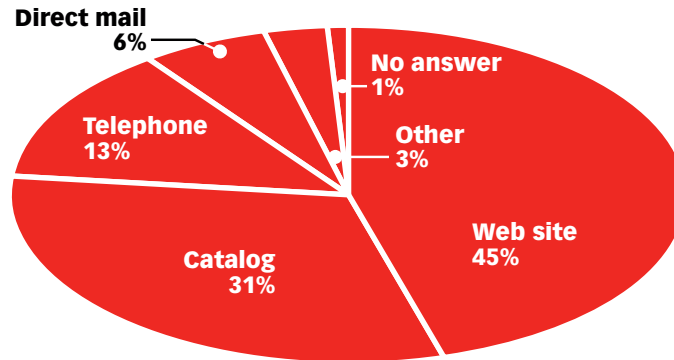
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In contrast, the study found that Web sites were the leading channel that consumers used to research a purchase, edging out catalogs by a significant margin. However, catalogs remained a major source as 31% of respondents cited them as their main research channel.

Main Channel US Consumers Use to Research a Purchase, 2002 (as a % of respondents)



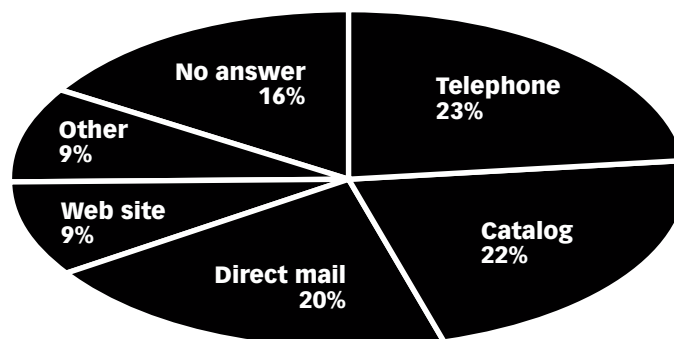
Note: numbers may not add to 100% due to rounding; based on individuals making direct marketing purchases during previous six months who used one channel for research and another to complete the transaction
Source: Direct Magazine, Yankelovich, August 2002

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Lending further evidence to the cross-pollination effects of different channels, the survey found a far more scattered approach for completing a purchase, with telephones, catalogs and direct mail pretty evenly splitting the lion's share. Web sites did not reflect their dominance of the research task among respondents, but the high number of "no answer" responses at 16% could tip the scales for any medium.

Main Channel US Consumers Use to Complete a Purchase, 2002 (as a % of respondents)



Note: based on individuals making direct marketing purchases during previous six months who used one channel for research and another to complete the transaction
Source: Direct Magazine, Yankelovich, August 2002

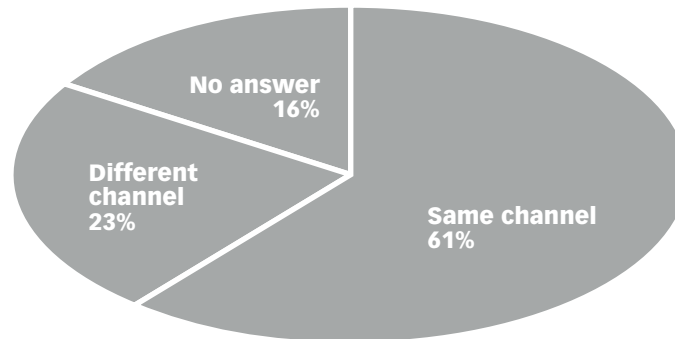
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If the Web is indeed having trouble retaining the prospective customers that use it for research, it is not alone. The Direct Magazine/Yankelovich study found that 23% of consumers use different channels when researching and purchasing.

US Consumers Who Use the Same Channel to Research and Make Purchases, 2002 (as a % of respondents)



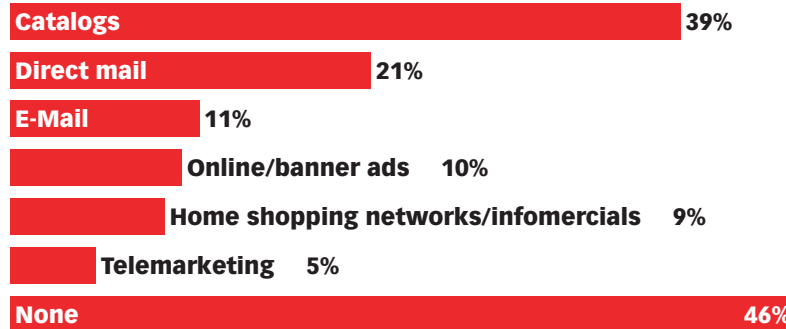
Note: n=1,000

Source: Direct Magazine, Yankelovich, August 2002

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Channels US Consumers Use to Seek Information or Make Direct Marketing Purchases*, 2002 (as a % of respondents)



Note: n=1,000; multiple responses allowed; *during six months prior to survey

Source: Direct Magazine, Yankelovich, August 2002

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In the dot-com-era battle between pure-plays and brick-and-mortar stores, both picked up slightly more business in the holiday season of 2002 vs. 2001, which likely reflected slightly more confidence in the economy. Those who shopped exclusively online grew slightly while those who shopped exclusively in brick-and-mortar stores shrank slightly. Nonetheless, physical stores still led the online channel in terms of user choice by a significant if narrowing margin in 2002.

Holiday Shopping in the US, by Channel, Holiday Season 2001 & 2002 (as a % of respondents)

Brick-and-mortar stores



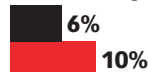
Online



Exclusively brick-and-mortar stores



Exclusively online



■ Holiday Season 2001

■ Holiday Season 2002

Source: DoubleClick, February 2003

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B. Online Shopping and Experience

“There is an expectation on the part of companies that a two-day turnaround is good enough for customers. But customers that are buying goods on the Web want an answer right away.”

– Adam Sarner, research director, Gartner Group

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 those who have been online longer.

Though very little empirical data exists to explain this phenomenon, a likely explanation is that Internet users must first become familiar with Web surfing and navigating the Internet before they are ready to make a purchase online. But there are other variables that may skew that explanation. 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 big-ticket items, such as travel and computers, online.

According to the UCLA Center for Communication Policy, most Internet users have been online between two and six years, with over a quarter now online for more than six years. This represents a mature market for Internet commerce among the online population.

Internet Users in the US, by Experience Online, 2002 (as a % of respondents)

<1 year	5.4%
1 to <2 years	9.7%
2 to <4 years	28.7%
4 to <6 years	29.0%
6+ years	27.3%

Source: UCLA Center for Communication Policy, February 2003

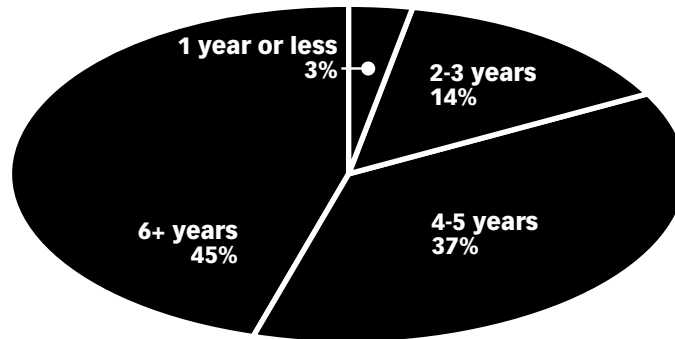
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Data from the Pew Internet and American Life Project shows that users with the greatest experience dominated the online shopping season. The 82% of those who bought online had at least four years of experience. In contrast, those with one year or less online comprised only 3% of shoppers. Within another two to three years, it appears as if lack of experience will cease to be an inhibitor in online shopping, particularly in the holiday season when users are most likely to buy.

Online Holiday Buyers, by Experience Online, December 2002



Note: n=1,220 Internet users

Source: Pew Internet & American Life Project, January 2003

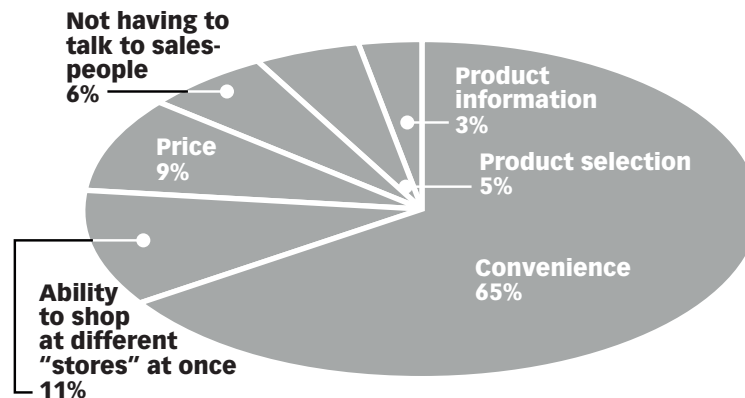
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Users shop online for different reasons, but online, convenience is king, according to the CEA's eBrain market research group. While 65% of the 639 online buyers surveyed associated the word convenience with what they most value in online shopping, many of the other proposed benefits could be interpreted as factors of convenience, as well, including product selection, the ability to shop different sites at once, and even not having to talk to salespeople.

Greatest Benefit of Online Shopping According to US Online Buyers, 2002 (as a % of respondents)



Note: n=639 online buyers; numbers may not add up to 100% due to rounding

Source: eBrain Market Research/Consumer Electronics Association (CEA), May 2002

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C. Conversion Rates

"In spite of the dot-com meltdown, the Internet is still going strong and is advancing steadily."

– Gus Schattenberg, vice president of global research at Ipsos-Reid

Another critical variable for online retailers is conversion rate, or the percentage of visitors to an average Web site who decide to purchase online from that site. Driven by an increased average tenure of Internet shoppers and aided by more savvy marketing techniques employed by sites themselves, the conversion rate continues to rise. 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 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 (1), 2001

comScore Networks Inc. (including travel), 2002 (2)

9.8%

comScore Networks Inc., 2002 (2)

4.5%

eMarketer, March 2002

4.2%

Shop.org and Boston Consulting Group, June 2002

3.1%

McKinsey & Company, 2001 (3)

2.5%

Note: (1) Based on average merchant results for the % of Internet visitors clicking to a retail site who purchase something during the visit; (2) for unique buyers/unique visitors; (3) McKinsey also found that the top sites may have conversion rates as high as 12% while the rate for the worst performing sites can be as low as 0.4%

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

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D. Location of Internet Use

“Companies should accept some personal use of the Internet at work as not only inevitable, but as positive to the organization. Totally segregating work from personal activities might result in a net decline in work performed, not to mention lower workplace morale.”

– Roland Rust, director of University of Maryland Robert H. Smith School of Business’s Center for e-Service

While home broadband adoption continues in the US, high-speed, persistent access at home is far less likely than it is at the workplace. Because of the better online experience, and the sheer amount of time most consumers spend at work, many consumers conduct e-commerce from their workplace. As the following data show, retail sites were among the top five categories of sites visited by an at-work audience, with nearly 70% of users reporting visiting them. (Also of note, nearly 37% visit adult sites, causing some question as to exactly what kinds of businesses they’re in.)

Web Site Content Categories Visited by US Internet Users at Work, November 2002 (as a % of at work users who visited each type of site)

	Examples	% visiting
Services	Downloads, e-mail, instant messaging, chat, web hosting	93.9%
Portals	AOL, Yahoo!, MSN	91.3%
Search/navigation	Google, Yahoo!	73.2%
Retail	Books, music, computers, apparel, malls	69.0%
Entertainment	Multimedia, music, news, humor, kids	65.7%
Directories/resources	Directories, classifieds, reference, maps	63.4%
News/information	General news, politics, weather	59.6%
Community	Family, women, religion	54.1%
Business/finance	Banking, personal finance	53.3%
Travel	Airline transactions, hotels, car rental	42.4%
Games	Gambling, gaming information, lotto/sweepstakes	39.8%
Technology	News about technology	38.1%
Adult	X-rated sites	36.7%
B2B	Corporate sites	27.6%
Sports	Sports information, news	27.0%
Automotive	Manufacturer, resources	25.3%
Health	Information, pharmacy	24.9%

Source: comScore Media Metrix, December 2002

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Indeed, the past three years has seen a noteworthy rise in the number of consumers shopping online at work, according to the Consumer Electronics Association.

Percent of US Consumers Shopping Online at Work, 1999 & 2002



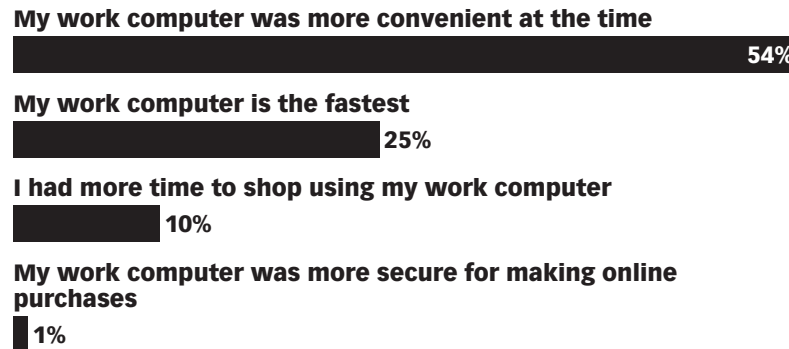
Source: Consumer Electronics Association (CEA), June 2002

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This has occurred despite increased penetration of broadband into the home. eBrain survey respondents cited convenience as the primary reason for shopping on a work computer, with speed being cited by 25% of respondents.

Reasons for Shopping Online from a Work Computer, 2002 (as a % of respondents)



Source: eBrain Market Research, May 2002

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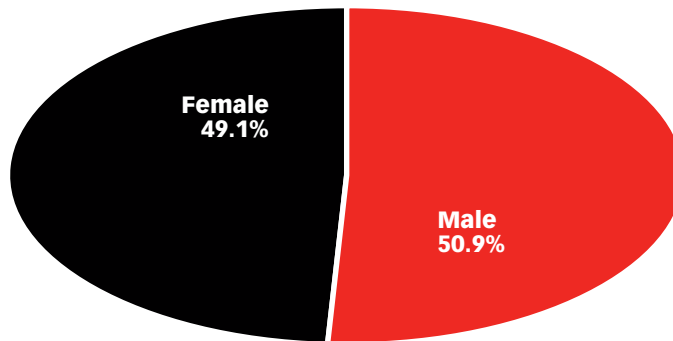
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In 2001, Nielsen/NetRatings reported that far fewer women than men are online at work, largely because men tend to hold more managerial or professional positions that afford Internet access. However, recent data from comScore Media Metrix suggests that the gender split at work is almost even.

US Internet Users at Work, by Gender, November 2002



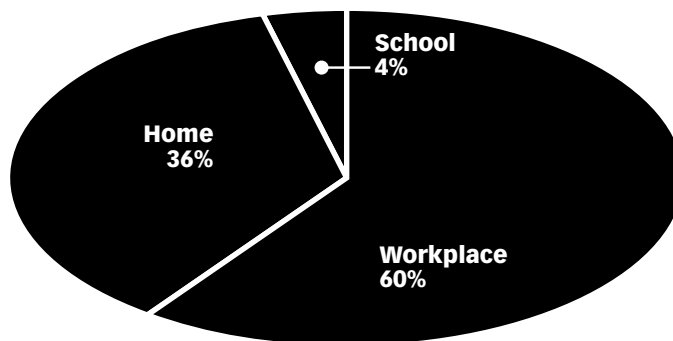
Source: comScore Media Metrix, December 2002

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According to comScore Media Metrix, the workplace accounts for 60% of online consumer spending, while only 36% occurs at home and the remainder at school. However, this statistic does not differentiate between corporate and personal expenditures. Since corporate purchases are, on average, much higher than individual ones, the personal funds spent at work are likely much smaller.

Online Consumer Spending* at US E-Commerce Sites, by Internet Access Location, 2001



Note: includes sales from non-US visitors; *excludes auctions and large corporate purchases

Source: comScore Media Metrix, 2002

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US Purchases Made Outside of the US

“Consumer behavior itself is amazingly static, and the Web hasn’t changed that. Shoppers are going to do what they are going to do.”

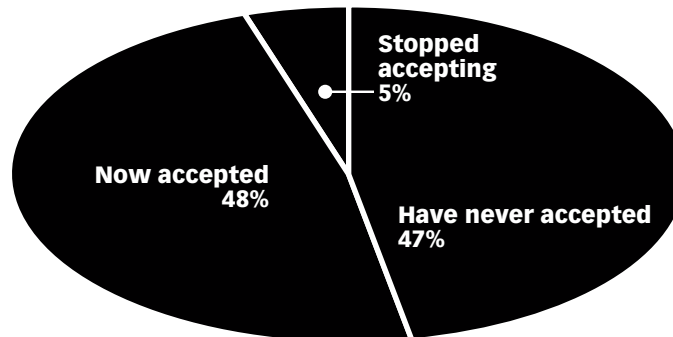
– Peter Fader, Wharton School of Business at the University of Pennsylvania

The mesmerizing variety of goods available in the US has always made it a popular destination for foreign shoppers, and it has become even easier for these consumers to visit US-based stores in the age of the Internet.

However, stores are not overwhelmingly eager to take advantage of this potential market. While nearly half of all US online merchants surveyed by GartnerG2 indicate that they now accept foreign orders, nearly as many do not, and 5% have stopped accepting these orders.

Clearly, the logistics and expenses of managing foreign orders has dampened some enthusiasm for taking advantage of this market. Other explanations may include US stores directing, for example, British consumers to European versions or affiliates of their sites.

US Online Merchants’ Acceptance of Non-US Orders, 2002 (as a % of respondents)



Source: GartnerG2, September 2002

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E. Demographic Characteristics of Internet Users

“Nearly 10 million people over the age of 16 gained Internet access in the US between the end of 2001 and the end of 2002, significantly more than in the other 10 markets studied.”

– Richard Goosey, international chief of measurement science,
Nielsen//NetRatings

Income

As the Internet population has grown, their demographics have come to more closely match the overall population. According to America Online and RoperASW, the median income of Internet users is now below that of the total US population.

Median Household Income of Internet Users vs. Total Population in the US, 2002 (as a % of respondents)

Total US population*	\$50,500
Internet users	\$48,000

Note: n=1,001 Internet users ages 18+; *based on 2001 Current Population Survey

Source: America Online/RoperASW, April 2003

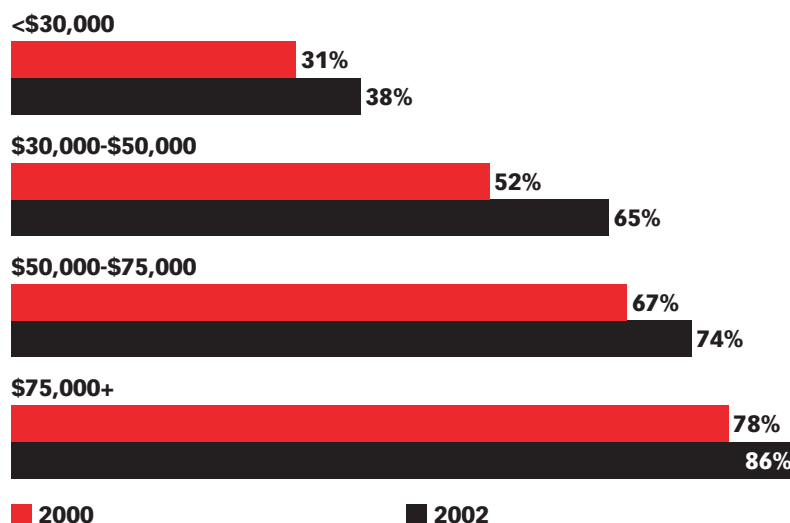
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The Pew Internet & American Life Project found that more consumers are online in 2002 than they were in 2000 irrespective of income level. The largest gain came in the \$30,000 to \$50,000 bracket. The income groups above and below this group each gained seven percentage points.

Internet Users in the US, by Income, 2000 & 2002 (as a % of respondents)



Note: n=2,503 for 2000 and 3,553 for 2002
Source: Pew Internet & American Life Project, April 2003

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According to eBrain, the research arm of the Consumer Electronics Association, the lowest percentage of consumers who have no online shopping experience is the \$50,000+ range.

Online Shopping Habits in the US, by Income, 2002 (as a % of respondents)

	Overall	Under \$25,000	\$25,000- \$49,999	\$50,000- \$74,999	\$75,000+
Purchased online	75%	58%	74%	82%	84%
Looked online but didn't purchase	18%	25%	19%	16%	12%
Neither shopped nor purchased online	8%	18%	7%	2%	4%

Note: n=844
Source: eBrain Market Research/Consumer Electronics Association (CEA), May 2002

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Gender

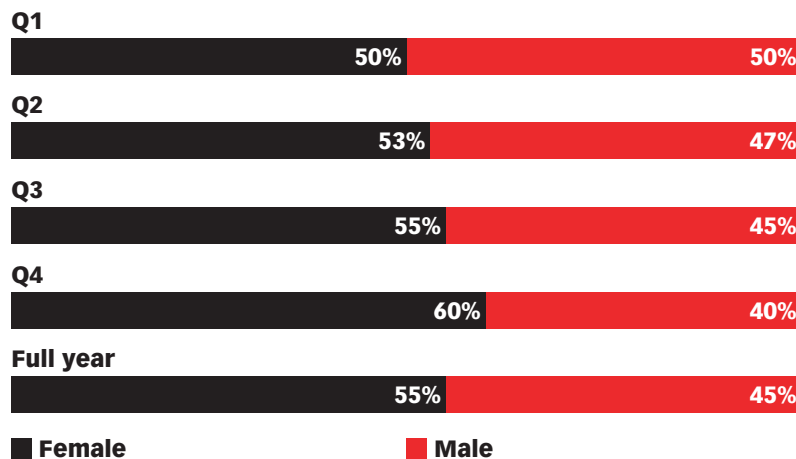
“Throughout the year, women tend to do more shopping online in general, but we see an even parity among the genders during the holidays, as men have an obligation to shop for gifts.”

– Lisa Strand, director and chief analyst, Nielsen//NetRatings

Women are important markets for online retailers, since they generally influence 80% of household purchasing decisions. According to a 2001 study by Millward Brown, women tend to respond to actionable offers online or to product information.

According to BizRate, the percentage of female online buyers in each of the last four quarters was 50% or higher and in the fourth quarter climbed as high as 60%.

US Online Buyers, by Gender, Q1-Q4 2002 (as a % of the population)



Source: BizRate.com, January 2003

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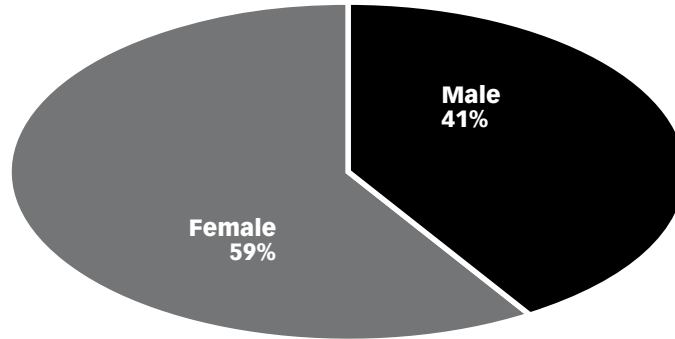
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Estimates for December from the Pew Internet & American Life Project, which surveyed 1,200 consumers, are consistent with BizRate's fourth quarter estimate.

Online Holiday Buyers, by Gender, December 2002



Note: n=1,220 Internet users

Source: Pew Internet & American Life Project, January 2003

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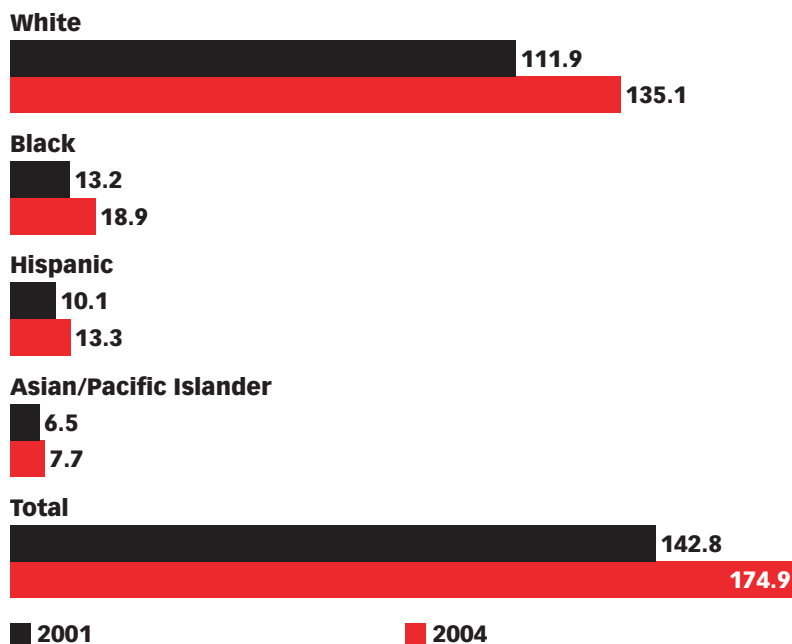
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Race/Origin

The issue of the digital divide has been a hot topic for years among policymakers and ethicists, but it also has practical implications for online retailers. Differences in Internet use persist among racial, ethnic and national origin sub-groups. eMarketer has determined that, at the end of 2001, of the 142.8 million Internet users, 111.9 million were white, 13.2 million were black, 10.1 million were Hispanic and 6.5 million were of Asian & Pacific Islander descent. By 2004, about 18.9 million blacks and 13.3 million Hispanics will be online, but the largest numeric and percentage gains will be posted by whites.

Internet Users in the US, by Race/Ethnicity, 2001 & 2004 (in millions)



Note: numbers may not add up to total due to rounding

Source: eMarketer, January 2003

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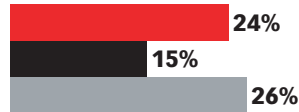
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Pew found that education comes into play in different races being online. Some college tends to bring more consumers online, especially for Hispanics, but for blacks, the greatest gains come after completion of college.

Internet Users in the US, by Race/Ethnicity and Education, March & May 2002 (as a % of respondents)

Less than high school



High school



Some college



College+



■ Whites ■ Blacks ■ Hispanics

Note: n=3,553

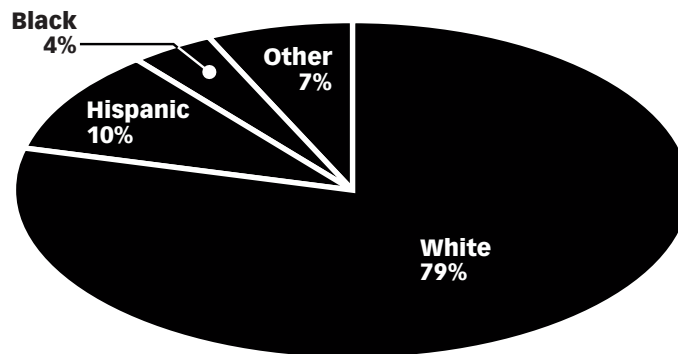
Source: Pew Internet & American Life Project, April 2003

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Furthermore, since more white Americans have been online longer, whites tend to dominate the shopping landscape today. Minorities compose only 21% of online holiday buyers, according to Pew.

Online Holiday Buyers, by Race/Ethnicity, December 2002



Note: n=1,220 Internet users

Source: Pew Internet & American Life Project, January 2003

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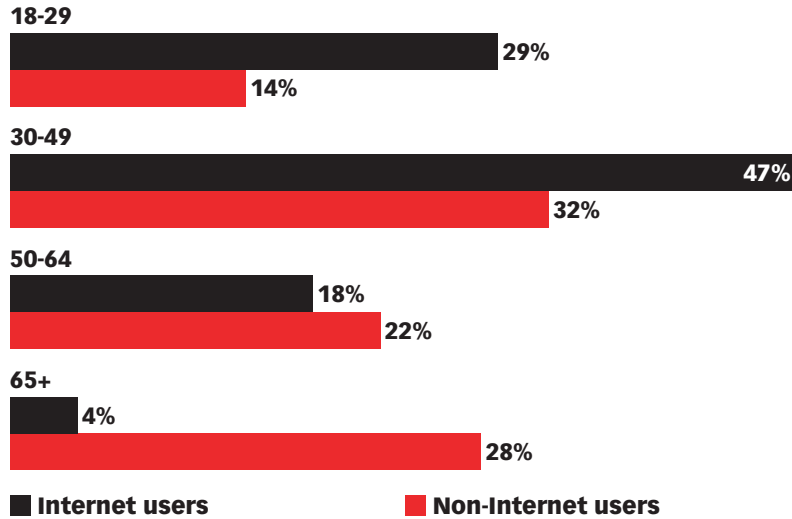
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Age

The Pew Internet and American Life Project has found that the likelihood of Internet usage goes down with age; almost half of Americans age 30 to 49 are online.

Internet Users and Non-Internet Users in the US, by Age, March & May 2002 (as a % of respondents)



Note: n=3,553

Source: Pew Internet & American Life Project, April 2003

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The Conference Board and others found that about 54% of adults under 55 had bought online, while 42% of those over 55 had. Clearly, as the Internet has begun to reach saturation in the US and tenures have grown, more users have learned to trust online purchasing.

Online Buyers in the US, by Age, Q4 2002 (as a % of respondents)



Source: The Conference Board, NFO WorldGroup, Forrester Research, January 2003

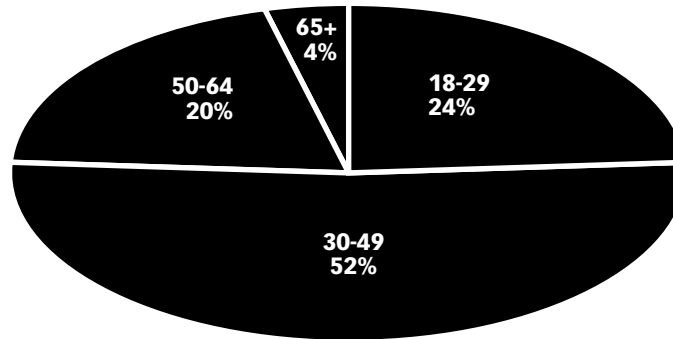
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The Pew Internet & American Life Project found that of the 1,200 Internet users they surveyed who had purchased online in December 2002, just over half were between 30 and 49. Young adults were the second largest group, with nearly a quarter being between 18 and 29.

Online Holiday Buyers by Age, December 2002



Note: n=1,220 Internet users

Source: Pew Internet & American Life Project, January 2003

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According to WSL Strategic Retail, 73% of consumers between age 35 and 54 shopped online during the 2002 holiday shopping season, while over three-fourths of adults under 35 did so. These demographics indicate that as this generation continues to age, retailers can expect a larger percentage of the population to shop online, presuming that another medium does not arise to compete with the Internet.

Consumers Conducting Holiday Shopping Online in the US, by Age, 2002 (as a % of each age group)



Source: WSL Strategic Retail, January 2003

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By 2007, Jupiter Research sees the large body of online shoppers who are between 19 and 34 taking their shopping leadership with them into the 35 to 49 year old range. The youth and senior segments are expected to grow.

Online Shoppers in the US, by Age, 2001-2007 (as a % of online shoppers)

	2001	2002	2003	2004*	2005	2006	2007
Under 18	6%	7%	8%	9%	11%	12%	13%
18-24	11%	10%	9%	9%	8%	8%	8%
19-34	36%	34%	32%	31%	29%	28%	27%
35-49	31%	32%	33%	32%	31%	30%	29%
50-64	14%	15%	15%	16%	17%	17%	18%
65+	2%	2%	3%	4%	4%	5%	5%

*Note: *Percentages may exceed 100% due to rounding*

Source: Jupiter Research, November 2002

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F. Online Shopping Convenience

“Customers are gravitating toward items that they can’t necessarily find at the Wal-Mart store — they want the deep assortment in certain categories. It makes sense because the stores have limited store space; online we have no space restrictions.”

– Cynthia Lin, spokesperson for Walmart.com

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

As discussed earlier, data certainly indicates that consumers flock to multiple channels and there is at least anecdotal evidence that online and brick-and-mortar channels can complement each other, especially for tasks such as in-store pickups and returns. However, there is also some evidence that the Internet competes with traditional store purchases. According to the UCLA Center for Communication Policy, nearly two-thirds of users surveyed in 2002 said that the Internet had reduced their in-store shopping at least somewhat. That number represented a 12 percentage-point jump from 2001.

Online Buyers in the US Who Have Reduced Shopping in Stores due to Their Use of the Internet, 2000-2002 (as a % of respondents who purchase online)

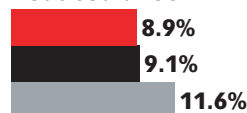
Reduced somewhat



Not at all reduced



Reduced a lot



■ 2000

■ 2001

■ 2002

Source: UCLA Center for Communication Policy, February 2003

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While it is harder to quantify the effect of the counterbalance, the UCLA study also found that the frequency of consumers who shop online and then purchase in physical stores grew slightly from 2001 to 2002. This continued a trend that had been seen from 2000 to 2001. The percentage of consumers who “sometimes” buy online had dipped significantly from 2000 to 2001. While there is support for initiatives that drive users to physical stores after shopping online, there has not been the rich cross-channel discounting support in terms of issuing online coupons for use at brick-and-mortar stores. Most retailers have adopted a stance of not favoring either channel.

Frequency with Which Online Buyers in the US Shop Online Then Buy in Stores, 2000-2002 (as a % of respondents who purchase online)

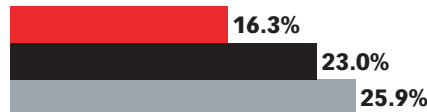
Sometimes



Never



Often


■ 2000

■ 2001

■ 2002

Source: UCLA Center for Communication Policy, February 2003

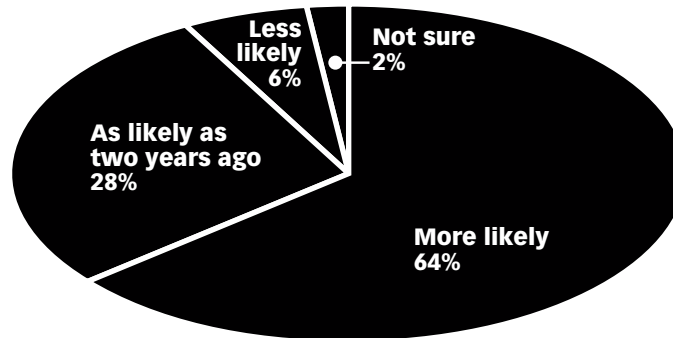
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While experience is a good predictor of the likelihood of Internet shopping, not all consumers grow in likelihood to buy with more time spent online. According to Ipsos-Reid, 6% of users were actually less likely to buy online than they were two years ago, while 28% had seen no change in their likelihood to buy online.

Online Shoppers that Say They Are More Likely to Shop Online Now Compared with Two Years Ago, 2002 (as a % of respondents)



Source: Ipsos-Reid, November 2002

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Customer Service

“Customer satisfaction is not an indication of ecstasy. It just means that the customer believes that you as the vendor are doing everything you can to provide them with the service or good or support they need in a particular situation.”

– Denis Pombriant, Aberdeen Group

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

Indeed, in the February 2003 results of the American Customer Satisfaction Index, a quarterly survey conducted by the University of Michigan, bellwether Amazon's customer satisfaction score jumped five points to an industry-best 88, the highest-ever ACSI score for a service company, online or offline. Other Web sites singled out by ACSI include BarnesandNoble.com with a mark of 87, at six points an even greater improvement than Amazon's. eBay weighed in with an 82; Expedia.com with 80, and Buy.com with 80. Priceline.com and uBid brought up the rear with scores of 71 and 70, respectively

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Scores for the top three were up from 2002, when Amazon had scored 84, two points ahead of both eBay and barnesandnoble.com.

US Customer Satisfaction with Leading Online Retailers, Q3 2000, Q4 2001 & Q4 2002 (based on a 100-point scale)

Amazon.com, Inc.



Barnes&noble.com



Buy.com, Inc.



1-800-Flowers.com, Inc.



All others



■ Q3 2000 ■ Q4 2001 ■ Q4 2002

Source: American Customer Satisfaction Index (ACSI), February 2003

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According to CustomerRespect.com, Amazon held its own in the top 10 specialty retailers in online customer service, tying its longtime bricks-and-clicks competitor Barnes & Noble. The leading retailer also manages the online store for Toys R Us, which ranked second in the survey behind wholesaler Costco, not usually thought of as being a leader either in online presence or customer service. Two major home improvement chains – Lowe's and Home Depot – also ranked highly in the survey.

Top 10 US Specialty Retail Companies, Ranked by Online Customer Service, 2003 (based on an index scale of 0-10)

Costco Wholesale Corporation	9.3
Toys 'R' Us, Inc.	9.0
The Home Depot, Inc.	9.0
Best Buy Company, Inc.	8.9
Staples, Inc.	8.8
Foot Locker, Inc.	8.8
Lowe's Companies, Inc.	8.7
Amazon.com, Inc.	8.7
Barnes & Noble, Inc.	8.7
The Gap, Inc.	8.6

Source: CustomerRespect.com, February 2003

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Online retailers have employed a number of different features to incentivize purchases online, but according to the CEA's eBrain research division, results can vary widely. Not surprisingly, features that speak directly to consumers' bottom line top the list, followed by two features that result in greater peace of mind – order tracking and privacy policies.

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There are probably at least two reasons that live chat elicited the greatest negative reaction. The delay in achieving and working through chat can take the impulse out of impulse buying, or it could be because at least some retailers use live help as an opportunity to apply pressure to the sale, precisely the kind of sales pressure users shopping online generally want to avoid.

Web site Features that Increase the Likelihood of US Consumers Making an Online Purchase, 2002 (as a % of respondents)

	Increase likelihood	No effect	Decrease likelihood
Free shipping	90%	7%	2%
Will pay for shipping on returns	84%	11%	5%
Discounts to frequent customers	81%	13%	5%
Allows you to track your purchase	77%	18%	4%
Has a published privacy policy	62%	25%	12%
Saves your personal information for one-click checkout	53%	24%	22%
Received a high rating from an independent rater	51%	31%	17%
Allows you to specify if you need a signature on delivery	44%	31%	17%
Has an offline store associated with it	37%	26%	37%
Allows you to store a wish list	33%	31%	35%
Live online chat with customer service representatives	29%	26%	44%
Recommendations for purchases you might like	28%	38%	33%

Note: n=844

Source: eBrain Market Research/Consumer Electronics Association (CEA), May 2002

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Retailers have capitulated for consumers' demand for free shipping. According to the e-tailing group and the Direct Marketing Association, 34% of US retail Web sites offer at least conditional free shipping on their products, making the tactic the second most-popular feature after the far less expensive measure of a post-sale targeted e-mail.

Promotional Features Offered on US Retail Web Sites, Q4 2001 (as a % of Web sites surveyed)

Targeted e-mail post order

83%

Offer conditional free shipping on all products

30%

Pop-up prior to home page

11%

Offer free shipping on all products

4%

Pop-under

3%

Source: the e-tailing group and the Direct Marketing Association, 2002

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Indeed, the aspect of Internet commerce that consumers express the least satisfaction with are shipping costs, according to eBrain. Every other aspect of online shopping was deemed satisfactory by the clear majority of consumers surveyed, with most categories registering over a 70% satisfaction rate.

US Consumers Who Are Satisfied with Select B2C Web Site Shopping Features, 2002 (as a % of respondents)

Amount of product information available	77%
Web sites' ease of use	77%
Product availability	73%
Number of product choices	73%
Shipping time	71%
Product price	71%
Privacy policies	68%
Customer service	63%
Number of payment options	63%
Shipping costs	39%

Note: n=844

Source: eBrain Market Research/Consumer Electronics Association (CEA), May 2002

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While the telephone remains the primary medium through which adults request customer service, the Internet has emerged as the most efficient means through which it is delivered, according to the Dieringer Research Group. While the phone fielded just 4.4 inquiries per adult per quarter, instant messaging was able to process 9.3 requests per adult per quarter.

US Consumer Customer Service Volume, by Channel, Q1 2002

	Telephone	E-Mail	Web	Instant messaging
Number of adults requesting customer service (in millions)	64.3	30.8	26.7	11.1
Average number of inquiries per adult per quarter	4.4	4.7	6.6	9.3

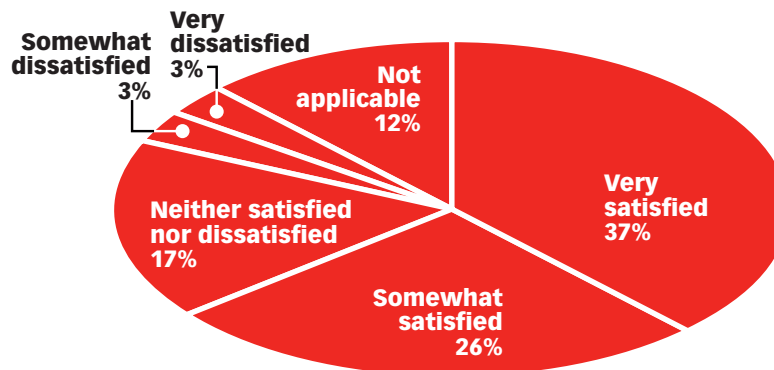
Source: The Dieringer Research Group, January 2003

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Indeed, according to eBrain, the majority of consumers were at least somewhat satisfied with the customer service they received in their last online shopping experience, with a tiny minority of users (6%) reporting that they were at least somewhat dissatisfied.

US Online Buyers' Satisfaction with the Customer Service of the Website Used during Their Most Recent Online Shopping Experience, 2002 (as a % of respondents)



Note: n=641 online buyers; numbers may not add up to 100% due to rounding

Source: eBrain Market Research/Consumer Electronics Association (CEA), May 2002

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Because of the growing popularity of the online channel, Jupiter Research expects the number of customer service e-mail inquiries to soar, more than tripling in size from 2001 to 2006. This momentum is leading the charge in all kinds of businesses to outsource in order to cost-effectively scale to the service demands of customers.

Customer Service E-Mail Inquiries in the US, 2001 & 2008 (in billions)

2001	1.0
2008	3.3

Source: Jupiter Research, February 2003

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In the time before the Web, the telephone was the most popular device for remote customer service; it has thus emerged as the de facto standard against which Internet-based customer service will invariably be measured. Within the various channels for customer service, The Dieringer Group found near parity between telephone and e-mail for overall satisfaction; both led other online channels of the Web and instant messaging. Note that the online channels failed to achieve the degree of satisfaction of the telephone.

US Consumers' Satisfaction with Customer Service, by Channel, Q1 2002

	Telephone	E-Mail	Web	Instant messaging
Extremely satisfied	31%	26%	19%	21%
Somewhat satisfied	29%	33%	33%	25%
Total satisfied	60%	59%	52%	46%

Source: The Dieringer Research Group, January 2003

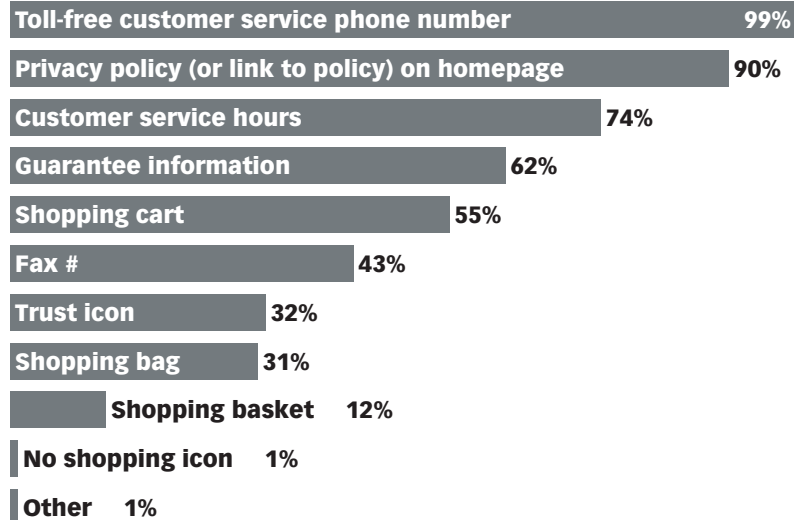
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Retailers can often take a proactive approach to customer service by adding certain features to their site. According to the Direct Marketing Association and the e-tailing group, a toll-free customer service number exists on virtually all US retail sites. Other popular customer service features were the posting of customer service hours and product warranty information.

Customer Service Information Provided on US Retail Websites, Q4 2001 (as a % of websites surveyed)



Source: the e-tailing group and the Direct Marketing Association, 2002

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One key way to provide customer service is through the use real-time features that provide consumers with a way to engage representatives immediately. According to Jupiter Research, the old-fashioned telephone still ranks highest in this regard by a wide margin, although searchable self-service (through an FAQ or other kinds of databases or documents) has picked up dramatically from December 2001 to August 2002.

US Web Sites' Real-Time Customer Service Abilities, December 2001 & August 2002 (as a % of sites tracked)

Toll-free phone number



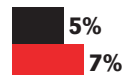
Online searchable self-service



Callback button



Text-based chat



Voice over IP



Text chat with collaboration



■ December 2001* ■ August 2002**

Note: *n=250; **n=227

Source: Jupiter Research, August 2002

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Another tool in providing a superior customer experience is accurate monitoring and reporting of inventory data. The e-tailing group and the Direct Marketing Association have tracked retail sites' implementation of stock information at various points along the sales process (at sale, after shipment, and after backorder); while shipping status has been adopted by nearly 80% of US retail Web sites, real-time inventory has been adopted by little more than half. Real-time inventory can be a double-edged sword, discouraging consumers who might otherwise buy an out-of-stock item.

Inventory and Shipping Information Provided on US Retail Websites, Q4 2001 (as a % of websites surveyed)

Shipping status

79%

Real-time inventory status

54%

Information about backordered/out of stock products

16%

Source: the e-tailing group and the Direct Marketing Association, 2002

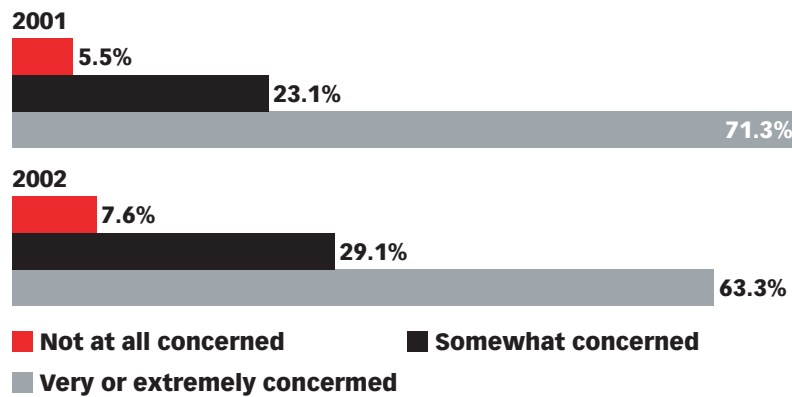
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Information regarding inventory and backorder status is important because it provides the buyer with a sense of security. Indeed, a long-running concern of consumers online has been the security of their credit cards. According to the UCLA Center for Communications Policy, while most consumers remain very or extremely concerned about credit card security as they buy, the overall level of concern has dropped since 2001. The number of respondents expressing the highest level of concern has dropped by nine percentage points from 2001 to 2002, while the number of those with no concern at all rose very slightly.

US Internet Users' Concerns about Credit Card Security When Buying Online, 2001 & 2002 (as a % of respondents ages 18+)



Source: UCLA Center for Communication Policy, February 2003

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Advanced Web Site Features

“We know that personalization increases loyalty, increases how long people spend on sites, increases the probability of their spending, and increases positive word-of-mouth.”

– Richard Feinberg, director, Purdue Center for Customer Driven Quality

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Given the wide variety of online retailers and the thousands of products sold just at Amazon.com, Web sites have experimented with a plethora of advanced features, according to consultancy Deloitte Touche Tohmatsu. Among the most popular have been product visualization and education, which seek to bridge the lack of human contact in the online channel. Of note, while Amazon has not made extensive use of visualization or education modules on its site, many of its characteristics have been adopted by a relatively small slice of other retailers. These include shopping lists, collaborative filtering, community features, personalization, gift-wrapping and gift registries.

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Most Common Advanced Features of Retail Web Sites, 2001 (as a % of respondents)

Product visualization

54%

Product education

52%

Special sales/discounts

46%

Customized e-mail reminders/promotions

39%

Community information

33%

Order status/track and trace

25%

Customized products/configuration

17%

Frequent buyer rewards

17%

Gift wrapping/personalized cards

17%

Personal shopper/shopping list

15%

Online entertainment

13%

Collaborative filtering recommendations

12%

Objective/expert product selection

12%

Community with other customers

7%

Gift registry

7%

Customized/personalized pricing

6%

Project planning/estimates

4%

Web page personalization

4%

Note: n=200

Source: Deloitte Touche Tohmatsu, 2001; STORES Magazine, January 2002

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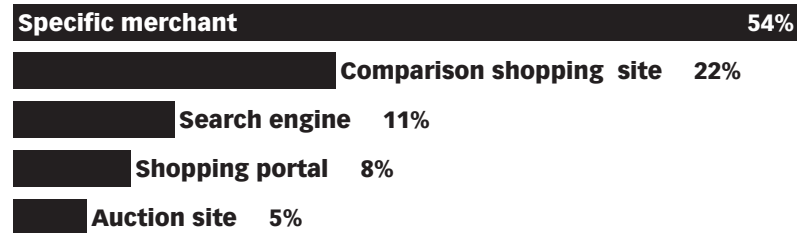
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Search and Navigation

Consumers search for products online in many ways. Searching, for example, can take place at the level of a Web search engine such as Yahoo! and AltaVista, or it can take place within a Web site. Product searching has taken on such significance at search leader Google is beta testing two product-focused search engines. Froogle.com allows consumers to search for products online while Google Catalogs allows searching of print catalogs. Amazon has also allowed consumers to search the catalogs of selected offline retail partners.

WebSideStory found that, in general, search engines and direct navigation have become a more popular way for consumers to reach Web sites. In contrast, the role of Web links has declined dramatically from 2002 to 2003. This likely reflects the maturing of the Internet population that has settled in to going directly to preferred retailers and using search engines to find what they don't see at those retailers. It could also reflect retailers getting more aggressive about customer retention.

Types of Web Sites Where US Online Buyers Begin Their Online Shopping, 2002 (as a % of respondents)



Note: n=4,299

Source: BizRate.com, December 2002

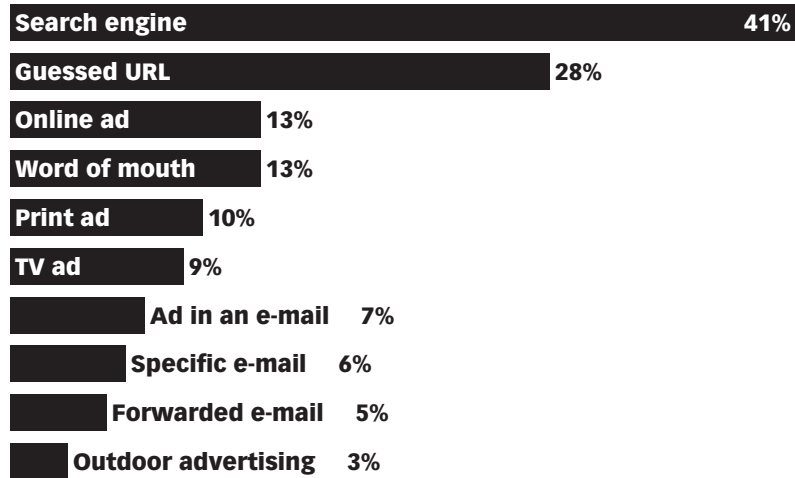
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The increasing importance of search engines is reflected in a study by DoubleClick and Greenfield Online, search engines are the most popular way that consumers find the products they research, with guessing the URL as the second most popular method. The malaise surrounding the online advertising space and advertising in general is reflected in the survey. Online ads were cited by only 13% of respondents, and no form of traditional advertising garnered more than a 10% response rate.

How US Consumers Find Product Web Site Used to Research a Purchase, December 2002 (as a % of respondents)



Note: n=2,000

Source: DoubleClick, Greenfield Online, March 2003

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According to ForeSee Results, consumers use shopping search engines for a variety of reasons. Price comparison remains the most popular application, with 77% of consumers identifying the ability to compare prices quickly as the most popular application. Comparison remained a strong theme with consumers. Over half cited the ability to compare products, and a quarter cited the ability to compare reputations of online stores.

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Consumers also are not afraid to take action from their comparisons. A quarter used search engines to weed out less-compelling selections, and 28% sought to reduce the risk of making a bad purchase.

Reasons Why US Online Shoppers Use Shopping Search Engines, December 2002 (as a % of respondents)



Note: n=1,100

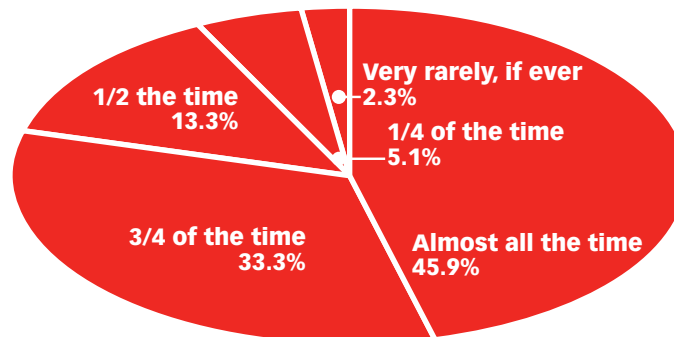
Source: ForeSee Results, January 2003

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While consumers are not always satisfied with their search results, of nearly 80% of the 1,400 consumers surveyed by iProspect, the majority reported a success rate of 75% or better.

US Internet Users' Perceived Success Rate in Searching for Products and Services, May 2002 (as a % of respondents)



Note: n=1,403; numbers may not add up to 100% due to rounding

Source: iProspect, November 2002

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When iProspect ranked responses by frequency of use, it found that practice makes perfect. Success rates improved dramatically among those who used search engines very frequently.

US Internet Users' Perceived Success Rate in Searching for Products and Services, by Frequency of Search Engine Use, May 2002 (as a % of respondents)

	Almost never	Once in a while	Some-what frequently	Very frequently
Almost all the time	18.18%	27.09%	39.60%	57.10%
3/4 of the time	18.18%	29.56%	34.45%	34.03%
1/2 the time	0.00%	18.72%	20.58%	6.61%
1/4 of the time	18.18%	16.75%	4.47%	1.45%
Very rarely, if ever	45.45%	7.88%	0.89%	0.81%

Note: n=1,403; frequency of search engine use among respondents was 0.9% (almost never), 16.3% (once in a while), 35.0% (somewhat frequently), and 47.8% (very frequently)

Source: iProspect, November 2002

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Ineffective navigation schemes can cause problems for consumers. In observing 25 sites, Web design firm 37signals found that 72% of them could not resolve misspelled words, and more than half provided little assistance when no results could be found. Retailers may want to think twice about adding low-ranking features such as personalization and community. Instead, it would pay off to take more time and spend more money to do a better job on the basics.

Search Engine Problems on US B2C E-Commerce Web Sites, October 2002 (as a % of sites reviewed)

Could not consistently match misspelled search terms with proper products

72%

Offered minimal to no sorting/filtering options on search result lists

68%

Unable to consistently match mixed specification searches to valid results

64%

Failed to handle synonyms and related terms at acceptable level

56%

Provided little to no help on their "No Results Found" pages

56%

Note: n=25

Source: 37signals, March 2003

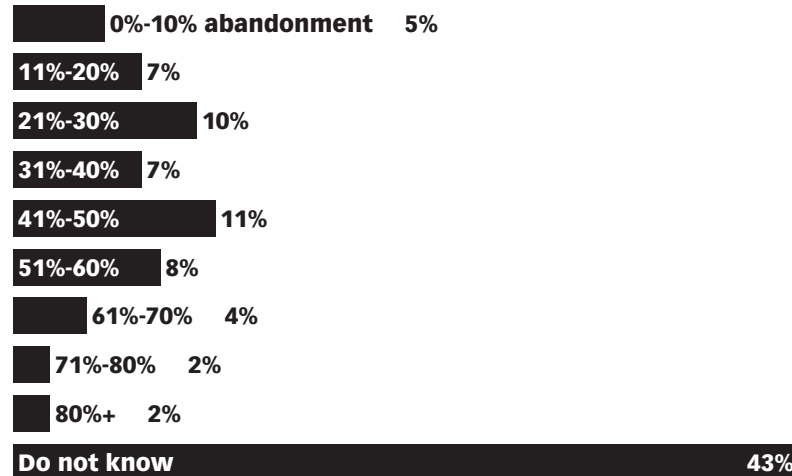
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Another important navigation feature is guiding consumers effectively to shopping carts. Shopping cart abandonment rates are a sign to retailers that something is preventing a purchase, but according to the e-tailing Group, 43% of online retailers do not know their shopping cart abandonment rate.

Shopping Cart Abandonment Rates According to Online Retailers in the US, Q1 2003 (as a % of respondents)



Note: n=200 senior executives
Source: the e-tailing group, April 2003

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Additionally, in light of the huge amount of spam that is flooding e-mail inboxes, many merchants are reassessing e-mail frequency to send fewer, more targeted messages to key customers. 80% of surveyed merchants use e-mail for store or product promotions, and 70% use e-mail to highlight full-price products or seasonal messaging. While e-mail has been shown to be an ideal branding vehicle, only 40% of respondents used e-mail for this purpose. Opt-in and opt-out strategies are used in varying ways depending upon specific objectives: 37% elect to have customers opt in, 19% prefer opt-out and 40% use a combination of both.

When asked to rank certain site features relative to their business, merchants focused on cross-sells/up-sells (50%), personalization (50%), improved search (35%) and live customer service (25%).

Web Site Personalization

A longstanding advantage of Web marketing has been the ability to customize the site experience through a variety of means including cookies and dynamically generated pages. While “one-to-one” site personalization remains technically possible, debate has continued regarding the cost-effectiveness and business advantage of such tailoring.

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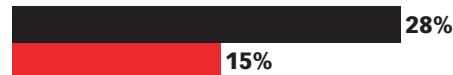
According to Jupiter Research, half of all surveyed women and 57% of men cited lack of interest as their main reason for not customizing content. The next two most-cited reasons were that customization was not useful or that users were unaware that it was possible. These responses indicate an overwhelming apathy toward personalizing content.

Reasons US Internet Users Do Not Customize Content Sites, by Gender, May 2002 (as a % of respondents)

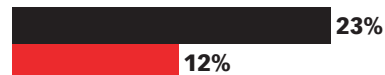
Not interested



Not useful



Unaware



Privacy concern



Takes too long



Sites don't offer



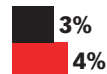
Too difficult



Concerned I'll miss something



Other



■ Male

■ Female

Note: respondents who do not use personalization features

Source: Jupiter Research, August 2002

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When users were willing to personalize, Jupiter found that men tended to customize more categories of content than women did, although in many categories there was only moderate difference. The area of greatest divergence was stock quotes, where men were almost three times as likely to personalize. Overall, however, this category ranked low in terms of personalization.

Elements US Internet Users Personalize on Content Sites, by Gender, May 2002 (as a % of respondents)

ZIP code for local information



Favorites, links



Types of information



Layout



Alerts or e-mail newsletters



Color scheme



Specific information sources



Stock quotes



Other



■ Male ■ Female

Source: Jupiter Research, August 2002

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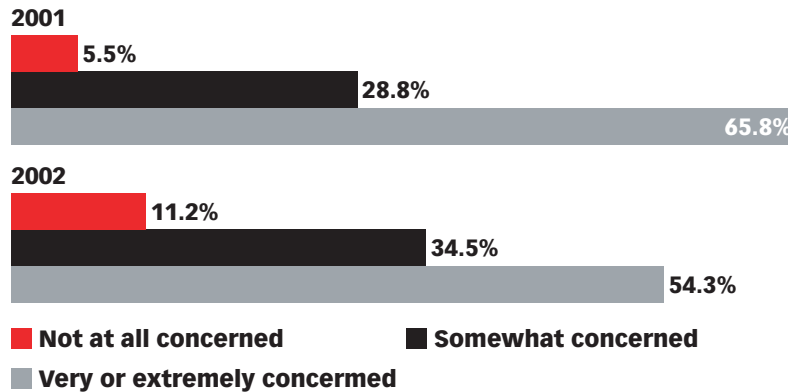
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Privacy

One of the reasons the Jupiter study noted for lack of personalization was fear of loss of privacy. Indeed, consumer concerns about privacy have had much in common with their concerns about credit card security. According to the UCLA Center for Communication Policy, most Internet users are very or extremely concerned about their privacy online, although the number of those in this category have dropped more than 11 percentage points between 2001 and 2002.

US Internet Users' Concerns about the Privacy of Their Personal Information When Buying Online, 2001 & 2002 (as a % of respondents ages 16+)



Source: UCLA Center for Communication Policy, February 2003

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G. Online Security and Fraud

“Consumers’ concern about the privacy of their personal information has a significant influence on their willingness to engage in business exchanges online. But this trust barrier is beginning to erode.”

– Lynn Franco, director of the Consumer Research Center of The Conference Board

Although more US consumers are buying online, the fear of security and credit card fraud has not vanished. Despite widespread adoption of SSL technology, and credit card guarantees, consumers are still wary about giving out their credit card information over the Web. While issuers usually limit the consequences of simple credit card fraud, the far more dangerous threat of identity theft can wreak havoc on consumers’ lives. According to the FTC, identity theft, in which a criminal can seize virtually all of a victim’s assets, accounted for 43% of Internet fraud complaints in 2002, 3.5 times the number of complaints as for the next closest category, Internet auction fraud.

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Top Fraud Complaint Categories in the US, 2002

Identity theft

43%

Internet auctions

13%

Internet services and computer complaints

6%

Advance-fee loans and credit protection

5%

Shop-at-home/catalog sales

5%

Foreign money offers

4%

Prizes, sweepstakes and lotteries

4%

Business opportunities and work-at-home plans

3%

Telephone services

2%

Health care

2%

Magazines and buyers club

2%

Other

11%

Source: US Federal Trade Commission (FTC), January 2003

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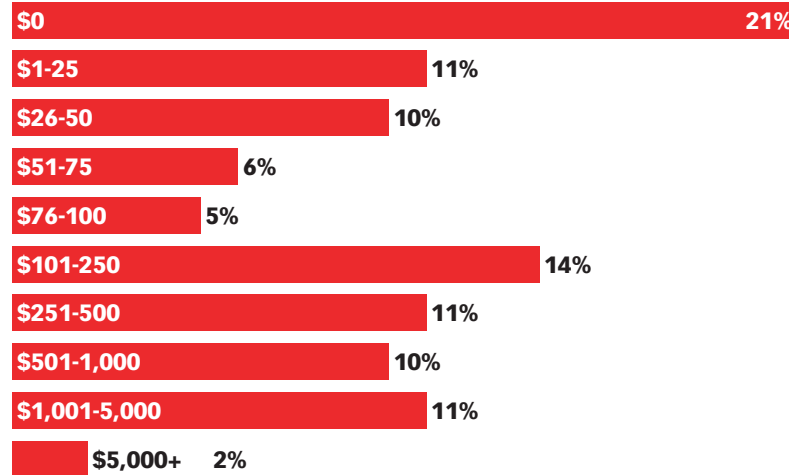
The effect of the fear of fraud dampens business. A report by GartnerG2, based on a January 2002 survey of 1,000 adult US online consumers, found that more than \$700 million in online sales were lost because of concerns about fraud in 2001. The striking fact is that online fraud losses for 2001 were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

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.

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And according to the FTC, Internet fraud victims can lose big as well. Of the monetary ranges lost in a fraudulent online transaction, nearly half were above \$100, with 13% breaking the \$1,000 mark.

Percent of Internet-Related Fraud in the US, by Monetary Loss, 2002



Note: Total amount of money lost due to fraud was \$122,364,090 and 94,502 consumers reported how much money they lost; Internet-related fraud refers to fraud complaints that concern an Internet product or service, the company initially contacts the consumer via the Internet or the consumer responds via the Internet

Source: US Federal Trade Commission (FTC), January 2003

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Consumers are ripped off in a wide variety of ways online, but con artists thrive in the fast and loose world of Internet auctions; eBay's omnipresent warning of "caveat emptor" has apparently been unsuccessful in stopping them. Internet auctions were responsible for half of the more than 100,000 fraud complaints, or as many as all other categories combined.

Products and Services that Cause the Most Internet-Related Fraud Complaints among Consumers in the US, 2002 (as a % of complaints*)

Internet auctions

50%

Shop-at-home/catalog sales

13%

Internet access services

11%

Foreign money offers

5%

Internet information and adult services

5%

Business opportunities

3%

Computers

2%

Internet Web site design

2%

Others

9%

*Note: Internet-related fraud refers to fraud complaints that concern an Internet product or service, the company initially contacts the consumer via the Internet or the consumer responds via the Internet; *102,517 Internet-related fraud complaints were received in 2002*

Source: US Federal Trade Commission (FTC)

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To fight back, retailers are preparing their own arsenal of defensive weapons. Many of these, such as screening software and the Verified by Visa program, came on the radar only in 2002. Use of the three-digit card verification number and address verification services saw the most growth among methods also employed in 2001. Address verification became the leading defense against Internet fraud with over 70% of sites taking advantage of it; verification has thus displaced the less efficient manual review process that was most popular last year.

Fraud Prevention Methods Used by US E-Retailers*, 2001 & 2002 (as a % of respondents)

Address Verification Service (AVS)



Manual review



Internally-built business rules



Internally-built fraud screen



Card Verification Number (CVN)



Commercial fraud screen/risk scoring service(s)



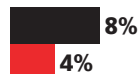
Commercial fraud screening software



Verified by Visa Payer Authentication Service (VPAS)



Other



None of the above



■ 2001

■ 2002

Note: n=178 in 2001, 341 in 2002; *in 2002, 55% of respondents sold both on- and offline, 45% of respondents sold only online

Source: CyberSource and Mindwave Research, November 2002

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"In many ways the PC is regarded as a work tool and is kept in the den, or other parts of the home. But the gaming device or console is typically kept in the living room..."

– Don Daglow, president of Stormfront Studios

It has taken nearly a decade for e-commerce to develop on PCs. Commerce infrastructure had to be built, sites had to be developed, interfaces had to be refined, and consumers had to be convinced both of the convenience and the security. Now that the Internet has become the primary channel for interactive commerce, can there be others? The experience of i-mode in Japan indicates that, within cultural constraints, it may be possible.

Within the US, the Consumer Electronics' Association found that 17% of consumers had made purchases on devices other than the PCs generally used, with 7% identifying portable devices as the platform used.

Internet Access Devices that US Online Buyers Have Used to Make an Online Purchase in the Past 12 Months, 2002 (as a % of respondents)

Home computer (including home office)	83%
Work computer	22%
School computer	1%
Library computer	2%
Portable device (e.g., cellphone, Palm Pilot, etc.)	7%
Other	10%

Note: n=600 online buyers; multiple responses allowed

Source: eBrain Market Research/Consumer Electronics Association (CEA), May 2002

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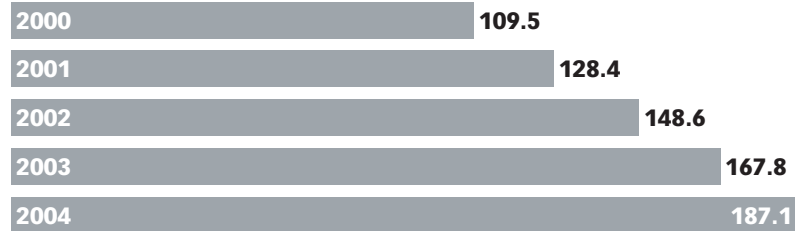
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A. Mobile Commerce

The US has become a leading country in terms of both mobile phone subscribers and penetration. Overall, the US represents a rich base for mobile commerce. eMarketer sees both the US subscriber base and penetration continuing to grow at the end of 2004.

Mobile Phone Subscribers in the US, 2000-2004 (in millions)



*Note: eMarketer's year 2000 & 2001 baselines are from the CTIA
Source: eMarketer, August 2002*

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Mobile Phone Penetration in the US, 2000-2004



*Note: *actual penetration as reported by the International
Telecommunication Union (ITU)
Source: International Telecommunication Union (ITU), eMarketer, August
2002*

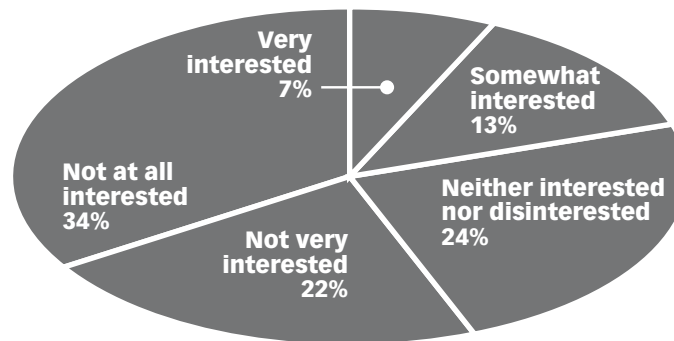
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According to eBrain, it appears that significant progress, either in functionality or education, will need to take place before consumers are interested in cellular shopping. Alternatively, the service will have to be pushed toward consumers. Only 20% of consumers surveyed expressed interest in shopping on handheld devices; the majority were either indifferent or not interested.

US Consumers' Interest in the Ability to Shop and Purchase Products Online Using a PDA, Mobile Phone or Other Handheld Device, 2002 (as a % of respondents)



Note: n=815

Source: eBrain Market Research/Consumer Electronics Association (CEA), May 2002

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Yankee Group is somewhat more upbeat about the future of m-commerce, at least for paid content, which would mirror the way the phenomenon has unfolded in Japan. Indeed, early indications in the US are that carriers are seeing demand for content that takes advantage of advanced handsets such as ring tones and games. Yankee Group sees premium mobile content as a billion-dollar market in the US by 2006, more than 10 times the size as that for remote commerce (such as accessing a Web site), and far in front of using the handset as a point-of-sale tool (as in punching in a code to release a candy bar from a vending machine).

US M-Commerce Transactions, by Transaction Type, 2001-2006 (in millions)

	2001	2002	2003	2004	2005	2006
Premium content	1.0	10.7	67.6	155.6	467.4	1,089.6
POS* purchase	0	0	0.7	2.8	11.7	33.5
Remote purchase	0.5	3.2	13.2	24.3	57.7	103.9

Note: *Point of Sale

Source: Yankee Group, October 2001

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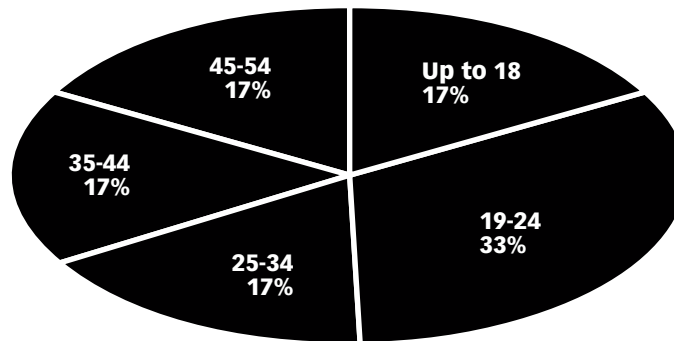
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One indicator that bodes well for the future of US m-commerce is that, to the extent it's been adopted, young adults have flocked to it. According to AT Kearney and the University of Chicago, fully half of those who have engaged in the service are under 24. This is especially surprising given that teenagers are generally hampered in online commerce by their lack of a credit card. Those under 18 may be charging their m-commerce purchases to their cell phone account, which may be paid by parents.

Use of M-Commerce among Internet-Enabled Phone Users in North America, by Age Group, June 2002 (as a % of respondents)



Note: numbers may not add up to 100% due to rounding
 Source: A. T. Kearney/University of Cambridge - Judge Institute of Management, August 2002

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B. Interactive TV-commerce

“Interactive TV has more baggage than American Tourister. It has become the Edsel, the New Coke, the Nehru jacket of modern technology.”

– Phillip Swan, TVPredictions.com

Just like mobile commerce can take place on a number of platforms including handhelds and handsets, virtually anything that connects to a television these days can be a platform for interactive television (iTV).

Today, that includes consoles like PlayStation 2 or Xbox, electronic program guides (EPGs), personal video recorders such as ReplayTV 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.

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.

Comparative Estimates: US iTV Revenue, 2001-2005 (in millions)

	2001	2002	2003	2004	2005
ABN-AMRO, 2001	\$359.5	\$1,259.9	\$4,805.7	\$10,554.4	\$20,038.1
eMarketer, February 2002	\$467.8	\$1,148.1	\$2,640.3	\$5,589.0	\$11,569.5
McKinsey Consulting, September 2001	–	–	–	–	\$17,500.0
Myers Report, March 2002	\$391.0	\$608.0	\$1,083.0	\$2,436.0	\$4,538.0

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

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In at least one sense, consumers are already using the TV to shop, spending billions on purchases through the cable shopping channels QVC and Home Shopping Network. QVC’s revenue alone in 2001 was \$3.9 billion. iTV-commerce has also been experimented with in Europe, particularly France, where companies like CanalPlus have offered more interactivity in its cable system.

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"The top sites like eBay and Amazon continue to take a disproportionate share of the income, yet there is still room for specialists and very small sites... Mid-tier sites, the ones in between, are having trouble making it."

– Andrew Bartels, analyst, Giga Information Group

This section examines some of the leading online retail categories in greater detail. As consumers become more accustomed to and comfortable with buying online, revenues from major retail categories continue to grow, but different categories have unique dynamics.

According to America Online and RoperASW, travel led all categories by a wide margin as the purchase for which consumers used the Internet as their main research source.

Purchases for which US Internet Users Used the Internet As Their Primary Research Source, 2002 (as a % of respondents)

Airline tickets, hotel reservations or travel packages

71%

Software for a personal computer

46%

Tickets to entertainment event such as sporting event, concert, museum or play

44%

A personal computer or hardware for a personal computer

40%

A book

39%

Investment such as shares, mutual funds or insurance

37%

Purchased or leased a car, truck or SUV

35%

Electronic equipment of any kind

34%

Personal finance products such as credit card and checking accounts

29%

Videos/DVDs

28%

Music, CDs or cassettes

27%

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Note: n=1,001 Internet users ages 18+; respondents were asked, "Thinking back to when you last purchased the following items, which one source did you use the most to gather information for your purchase?"

Source: America Online/RoperASW, April 2003

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According to Shop.org, 2002 saw the top three categories of travel, automotive, and PC hardware and software continue their lead. Sales in automotive, which includes parts and indirect dealer referrals, remained especially robust at 66.7% growth after an industry-leading 89.5% growth in 2001, while travel is projected to become the first category to break the \$20 billion mark. PC hardware and software is expected to recover somewhat in 2002 after a year of slowing growth in 2000; much of this was this was likely due to an overall slump in PCs.

With the exception of jewelry and luxury goods, all categories are expected to post double-digit gains in 2002, with several in the 40% to 60% range. Toys and books are expected to bounce back after losses in 2001.

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There still appears to be life left in many categories. With some, there is a combination of more of the market turning online as shoppers turn to that channel.

Online Retail Revenues in the US, by Category, 2001 & 2002 (in billions and as a % growth)

	2001 actual	2002 projected	2000-2001 growth	2001-2002 projected growth
Travel	\$14.1	\$20.0	18.0%	42.3%
Automotive*	\$5.4	\$9.0	89.5%	66.7%
Computer hardware and software	\$5.9	\$7.9	9.0%	33.8%
Office, home and garden	\$4.8	\$7.3	15.2%	52.5%
Apparel	\$4.4	\$5.2	43.0%	18.4%
Music video	\$2.8	\$3.9	4.6%	40.6%
Consumer electronics	\$2.6	\$3.4	18.2%	31.8%
Tickets	\$1.5	\$2.6	66.2%	76.1%
Books	\$2.0	\$2.6	-8.2%	27.2%
Food/beverage	\$1.6	\$2.4	36.1%	54.6%
Toys	\$1.9	\$2.3	-11.1%	19.0%
Jewelry and luxury goods	\$1.1	\$1.2	37.0%	3.3%
Sporting goods and equipment	\$0.9	\$1.1	15.7%	25.6%
Flowers, cards and gifts	\$0.7	\$1.0	5.7%	42.2%
Health and beauty	\$0.6	\$0.8	28.2%	41.5%
Other	\$1.1	\$1.4	8.6%	25.7%

*Note: *includes web-referred sales as well as parts*

Source: Shop.org and The Boston Consulting Group, June 2002

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In tracking online retail sales at US sites, comScore Networks reports computer hardware raked in \$10.1 billion in 2002, followed by apparel and office supplies.

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Computer hardware, office supplies, and consumer electronics (which placed fourth) lend themselves easily to online buying. They are commodities that are in demand in the office, and are pursued by the kinds of technical shoppers on the Internet today. Apparel and accessories, however, has been somewhat of a surprise because of the need to try on materials. However, as more retailers have implemented features such as custom color preview, consumers have probably begun to rest easier with their selection on certain items. The popularity of direct clothes purchasing has led brick-and-mortar retailer Sears to snap up direct merchant Lands' End and also led Amazon to make a big push into apparel last year, partnering with some of the biggest names in clothing such as Gap, Inc.

Online Retail Sales at US Sites, by Category, 2002 (in billions)

Computer hardware	\$10.107
Apparel and accessories	\$6.063
Office	\$5.827
Consumer electronics	\$3.735
Books	\$2.285
Event tickets	\$2.116
Home and garden	\$2.070
Health and beauty	\$1.169
Sport and fitness	\$1.075

Note: excludes auctions

Source: comScore Networks Inc., February 2003

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Forrester Research has partnered with Greenfield Online to track “small ticket” items, which the research firm says accounted for over \$20 billion in 2001. Apparel is again among the leaders, with other Amazon specialties such as toys, music, software, and of course books following closely.

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

	2001 sales
Apparel	\$3.27
Books	\$2.01
Toys/video games	\$1.90
Music	\$1.59
Software	\$1.56
Health and beauty	\$1.43
Office supplies	\$1.25
Videos	\$1.20
Jewelry	\$1.15
Linens/home decor	\$0.96
Sporting goods	\$0.90
Footwear	\$0.83
Flowers	\$0.67
Small appliances	\$0.61
Tools and hardware	\$0.57
Garden supplies	\$0.31
Total	\$20.18

Note: Figures do not add up precisely due to rounding

Source: Forrester Research/Greenfield Online, 2001 & 2002

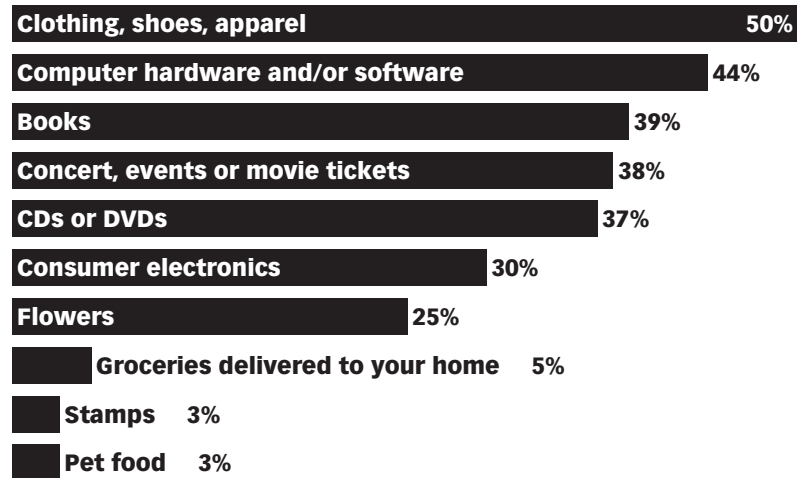
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Survey data from AOL and RoperASW found that clothing led the list of responses for online purchases.

Online Purchases in the US, by Category, 2002 (as a % of respondents*)



Note: *among respondents who ever made an online purchase

Source: America Online/RoperASW, April 2003

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According to the UCLA Center for Communication Policy, buying behavior can change for certain categories between consumers with less tenure and more tenure. While experienced users were more likely to make purchases in most categories, it is hard to detect a pattern to this purchasing behavior. Clothes, for example, which are generally inexpensive, were popular among both groups, somewhat more so for new users. Jewelry, generally a luxury item, was purchased more by new users, while PCs and peripherals, also relatively expensive items, are favored more by experienced users. Experienced users might be more willing to purchase items that might require configuration, such as computers and travel, but new users curiously were more likely to purchase automobiles online.

Types of Products Purchased Online by US Consumers, by Experience Online, 2002 (as a % of respondents)

	New users (<1 year)	Experienced users (6+ years)
Clothes	48.2%	41.8%
CDs	25.2%	17.0%
Jewelry/watches	16.5%	3.0%
Books	11.8%	36.8%
Furniture	8.7%	4.3%
Sporting goods	8.7%	10.1%
Collector's items	8.3%	3.5%
Hobby items	8.3%	4.9%
Flowers	6.6%	6.4%
Automobiles	6.2%	1.7%
Computers/peripherals	6.2%	11.9%
Food/cosmetics	5.6%	9.1%
Electronics	4.3%	16.2%
Travel	3.4%	16.8%
Children's goods	2.8%	8.4%
Software/goods	1.6%	14.6%
Stocks/bonds	0.0%	1.8%
Gifts	0.0%	11.6%
DVDs/Videos	0.0%	7.7%
Drugs	0.0%	2.9%

Source: UCLA Center For Communication Policy, February 2003

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A. Travel

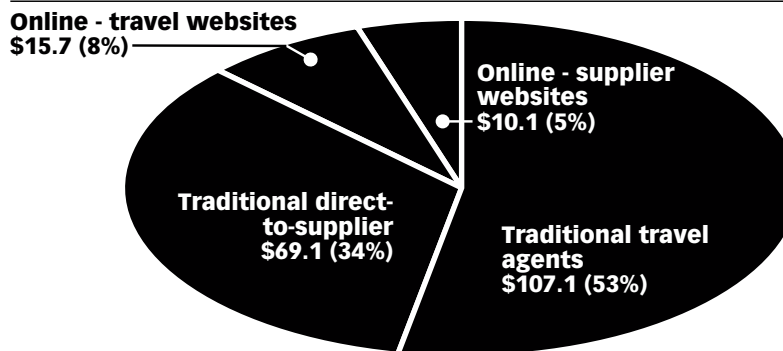
“Other online channels haven’t offered consumers the same level of involvement in the shopping research process [as online travel]. It’s also an overall lifestyle change. People find it more advantageous to sit down and turn on their computer than to get into the car and drive to a travel agency.”

– Don Addington, director of business operations at Travelocity.com

Because of its high average price, travel is the largest retail category in the US. According to PhoCusWright, a research firm that focuses on the travel industry, online travel purchases still represent a relatively small part of the market. Between supplier and third-party sites, 13% of purchases in the category were made online; this represents a relatively high proportion given that the overall share of retail purchases is still only 1.6%. Supplier Web sites have grown rapidly in the past few years, a small silver lining in the mammoth dark cloud that has hung over the industry, especially since the terrorist attacks of 11 September 2001.

While they must still be security-conscious, airlines such as Delta are stepping up efforts with online check-ins. SkyMiles members now can take advantage of Delta’s self-service online check-in product at delta.com between 24 hours and 30 minutes prior to scheduled departure for all US flights. Previously, delta.com check-in was available up to six hours prior to departure.

US Travel Bookings, by Channel, 2001 (in billions and as a % of total)



Source: PhoCusWright Inc., 2002

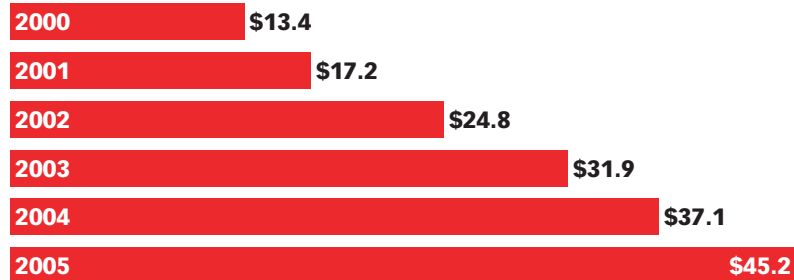
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eMarketer expects leisure travel to remain the largest retail category though the middle of the decade.

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



Source: eMarketer, April 2003

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



Source: eMarketer, April 2003

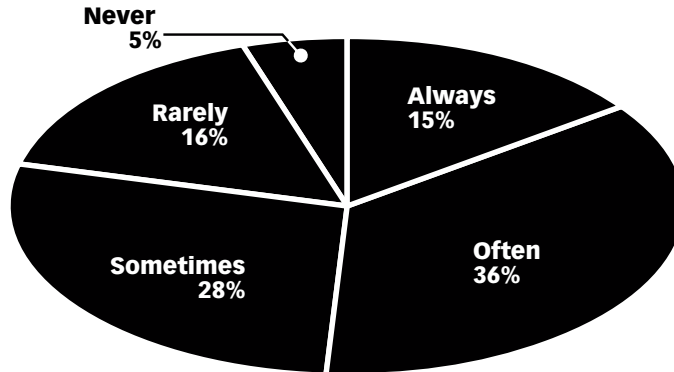
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While consumer travel is an important component of the market, the airlines' bread is buttered by corporate travel. The flexibility and confirmation afforded by these systems have shown appeal. According to Jupiter Research, booking travel online is a popular option when it is available. A survey of 81 heavy business travelers found that 36% chose online travel booking "often" while another 15% chose such services all the time; these two categories accounted for just over half of the responses.

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Online Booking Usage at US Companies, 2002 (as a % of respondents)



Note: n=81 heavy business travelers from companies where employees have the option of using an online instrument, but it is not required
Source: Jupiter Research, October 2002

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Also according to Jupiter, at companies with greater than 500 employees, heavy business travelers reported that in a slight majority of cases, companies had an online booking instrument. However, most respondents of those who had such instruments reported that they did not have to use them.

Penetration of Online Travel Booking Instruments at US Companies, 2002 (as a % of respondents)

No, do not have an online booking instrument

47%

Yes, have one but it is not required

36%

Yes, have one and employees must use it

14%

Note: n=168 heavy business travelers from companies with more than 500
Source: Jupiter Research, October 2002

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This is not to say that business travelers are given free reign with online travel. Jupiter found that, in the majority of cases, the company had a set provider for travel, although nearly 30% of those surveyed had some discretion in which online booking method to use.

Travel Booking Policies at US Companies, 2002 (as a % of respondents)

Company dictates where I book travel	58%
Up to me where I book travel	29%
Company does not specify where to book	14%

Note: n=139 heavy business travelers from companies with more than 1,000 employees; numbers may not add to 100% due to rounding
Source: Jupiter Research, October 2002

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Transactions, however, are not the only way that travel e-commerce sites derive revenues. According to AdRelevance, Expedia.com received over 4.5 billion advertising impressions in 2002, excluding December. Newcomer Orbitz, which has raised anti-trust concerns, generated only 1.9 billion ads with 23 more unique ads than Expedia.com.

Leading Online Travel Sites in the US, January-November 2002 (ranked by advertising impressions)

	Advertising impressions (in thousands)	Unique ads
Expedia.com	4,507,176	497
Mapquest.com	4,212,455	1,033
Travelocity.com	3,408,259	1,838
Orbitz.com	1,864,764	520
CheapTickets.com	498,649	494

Source: Nielsen//NetRatings AdRelevance, December 2002; MEDIA Magazine, January 2003

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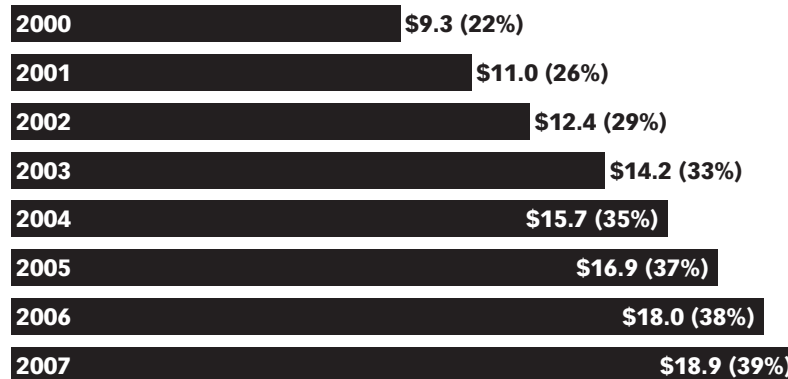
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B. Computer Hardware and Software

Demand for home PCs and computer-related picked up a bit from the doldrums of 2001. Of Microsoft's many launch efforts in the year, the one that seems to have resounded the greatest is Tablet PC, which marries the old dream of pen computing with the modern advantages of fast processors and large color LCDs. According to IDC, more than 72,000 Tablet PCs were launched in the fourth quarter of 2002, with more than half of those units shipping in the US.

In contrast, Jupiter Research does not see online PC sales reaching 39% of the market until 2007, although its estimate also includes software. The research group sees \$14.2 billion worth of computer-related products being sold in 2003, a figure that it expects to grow to \$18.9 billion in four years.

Online Retail Sales of Computers, Computer Accessories and Software in the US, 2000-2007 (in billions and as a % of total US market)



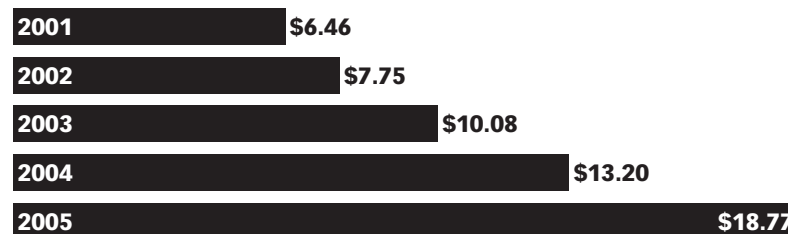
Source: Jupiter Research, November 2002

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Global Industry Analysts sees more aggressive growth for the online PC sales sector, reaching close to the level Jupiter sees in 2007 two years earlier.

US Online Retail Sales of Personal Computers, 2001-2005 (in billions)



Note: CAGR=30.55%

Source: Global Industry Analysts, Inc., January 2003

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According to Morgan Stanley, Dell is the leader in the PC market in terms of market share, capturing nearly a third of the market in 2001; Morgan Stanley's data does not take into account the HP-Compaq merger; however, combining their totals for the year would still place the combined company a distant second in market share. HP and Dell have been jockeying for the lead with most estimates placing HP in the lead in the consumer market and Dell leading in the more lucrative enterprise market and thus overall. Gateway, which has struggled for some time, has had a succession of rebranding strategies, store closings and layoffs; while the merchant started in the same direct model as Dell, it has opened its own line of Gateway Country stores across the country with mixed results.

Personal Computer (PC) Market Leaders in the US, by Market Share, 2001

Dell	29%
Compaq	15%
Hewlett-Packard	8%
IBM	8%
Gateway	7%

Note: Total=177 million PCs

Source: Morgan Stanley, May 2002

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Indeed, Gateway has not been the only manufacturer feeling the pinch. Data from the Department of Commerce shows that 2002 was simply brutal for computer companies. Year-over-year double-digit drops as high as 28% have jolted an industry that once enjoyed robust growth. The market for PCs is expected to continue to be dour through most of 2003. If DoC forecasts hold true, the third quarter of 2003 should mark the first growth for the PC industry since July 2000.

US Manufacturers' Shipments of Computers, 2000-2003 (in billions and % change)

	\$ value	% change vs. same month of prior year	% change of current 12 months vs. prior 12 months
January 2000	\$6.47	16.7%	9.7%
February 2000	\$5.72	-5.9%	8.3%
March 2000	\$5.42	-9.6%	7.6%
April 2000	\$6.25	1.8%	6.7%
May 2000	\$6.15	-0.8%	5.0%
June 2000	\$5.72	-9.7%	4.0%

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July 2000	\$6.03	-7.4%	1.2%
August 2000	\$5.72	-8.2%	-0.9%
September 2000	\$5.48	-5.2%	-1.7%
October 2000	\$5.90	-3.9%	-3.5%
November 2000	\$5.57	-5.1%	-4.5%
December 2000	\$5.33	4.8%	-3.0%
January 2001	\$5.50	-15.0%	-5.6%
February 2001	\$5.04	-12.0%	-6.0%
March 2001	\$4.99	-8.0%	-5.9%
April 2001	\$4.92	-21.3%	-7.9%
May 2001	\$4.80	-22.0%	-9.7%
June 2001	\$4.48	-21.7%	-10.7%
July 2001	\$4.61	-23.6%	12.0%
August 2001	\$3.41	-40.4%	-14.7%
September 2001	\$3.65	-33.3%	-16.9%
October 2001	\$3.93	-33.4%	-19.5%
November 2001	\$4.01	-28.0%	-21.4%
December 2001	\$4.01	-24.8%	-23.5%
January 2002	\$4.06	-26.3%	-25.6%
February 2002	\$3.78	-25.1%	-25.7%
March 2002	\$3.60	-27.9%	-27.2%
April 2002	\$3.73	-24.0%	-27.6%
May 2002	\$3.65	-23.8%	-27.8%
June 2002	\$3.74	-16.6%	-27.6%
July 2002	\$4.47	-3.1%	-26.1%
Forecast*			
Q3 2002	\$3.45	—	-22.9%
Q4 2002	\$3.84	—	-16.7%
Q1 2003	\$3.89	—	-9.2%
Q2 2003	\$3.96	—	-1.5%
Q3 2003	\$3.79	—	3.6%
Q4 2003	\$4.27	—	7.4%

*Note: *forecasts are for an average month within each quarter and are provide by Electronic Business*

Source: US Department of Commerce/Electronic Business, September 2002

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C. Gifts and Flowers

“Saving time and effort in gift-buying activities was cited by consumers as the number one reason why they opt to go online for a portion of their gift purchasing.”

– David Schehr, research director, GartnerG2

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; the Cambridge-based research firm sees gifts growing from less than a billion dollars in 2002 to well over \$5 billion by 2007, a CAGR of 41%. 1-800-flowers.com remains the heavyweight in this category.

E-Commerce Sales of Flowers, Cards and Gifts in the US, 2002 & 2007 (in billions)

2002	\$0.95
2007	\$5.30

Note: CAGR=41%

Source: Forrester Research, August 2002

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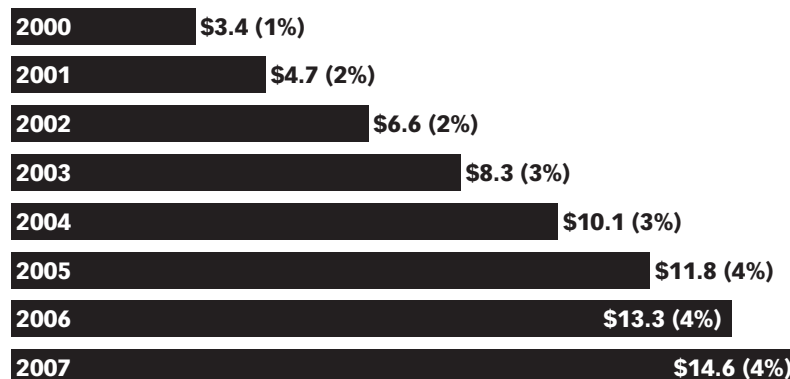
D. Apparel and Footwear

“Apparel is one of those items that many thought would have difficulty making traction online given customers’ desire to try on goods before purchasing.”

– Mary Brett Whitfield, senior vice president and director, Retail Forward E-Retail Intelligence Program

As noted before, selling clothing and footwear online presents a unique challenge, but one that retailers are learning to overcome through such initiatives as in-store returns and better use of previewing technologies. Jupiter Research expects the category to grow at a CAGR of 15.2% over the next four years. While retail will also have an above-average share of its market go online overall, the 4% of the market that will go online is dramatically lower than the 39% of the computer hardware market Jupiter projects will be sold online in 2007. Gartner’s estimates for apparel sold online in 2001 and 2002 are higher than Jupiter’s, but the company’s figures indicate less growth in 2001.

Online Retail Sales of Apparel, Footwear and Jewelry in the US, 2000-2007 (in billions and as a % of total US market)



Source: Jupiter Research, November 2002

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GartnerG2 saw growth in the online apparel sector from 2001 to 2002. Spending increased 23%.

US Online Apparel Spending, 2001 & 2002 (in billions)



Source: GartnerG2, November 2002

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Data from 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. NetRatings data from February 2002 also shows that while Eddie Bauer led among the top five retailers in terms of the amount of time each user spends on the site, the apparel stores that drew the most visitors were victoriasecret.com and fredericks.com.

Top Apparel/Beauty Websites among US At-Home and At-Work Users, February 2002

	Unique audience (in thousands)	Time per person (h:mm:ss)
1. victoriasecret.com	2,060	0:10:00
2. fredericks.com	1,701	0:09:18
3. Old Navy	1,686	0:10:30
4. The Gap	1,667	0:08:11
5. Eddie Bauer	1,429	0:14:14

Source: Nielsen//NetRatings, March 2002

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E. Music

No online category of product distributed online has generated more attention than music. Like other products sold in stores, CDs are sold by leading retailers online. However, most of the attention regarding music on the Internet has arisen from unauthorized distribution of music, primarily through peer-to-peer networking programs that have gained popularity after the demise of Napster; the most popular of these is KaZaa. Unlike Napster, which was a relatively easy target for music labels, parts of KaZaa are distributed around the globe so it is difficult for lawyers to make a case against any single piece of its service.

Attempting to answer consumers' complaints that unauthorized channels were the only way to get digital music online, labels last year began licensing their catalogs and invested in two rival services – MusicNet and PressPlay – to distribute their content. But the services are hampered by limited selection, high prices, and limited flexibility in how music is used; many believe the services are “too little, too late.” Nevertheless, IDC forecasts that subscriptions to such services should grow from 140,000 users in 2001 to over 11 million in 2006. During this time, the market will grow from \$12.2 million in 2001 to \$1.2 billion in 2006.

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in the United States](#)[B2B E-Commerce in Canada](#)[Index of Charts](#)**Paid Subscription Services on Selected Music Sites, 2002**

	Service	Payment plans (per year)	Paid subscribers (if available)
eMusic.com	eMusic covers over 900 independent labels and offers subscribers unlimited MP3 downloads and limited CD burning per month.	\$120	50,000+
Launch.com	Yahoo!'s free music, radio and video service. Most popular music (non P2P) channel on the web. Its subscription music service is associated with PressPlay.	\$119-\$215	–
Listen.com	Listen.com's Lycos Rhapsody service offers subscribers streaming radio and digital music downloads of all five major music labels, including Naxos classical. Signed distribution deals with Yahoo! and leading cable and satellite providers.	\$59-\$119	–
Music-Match.com	Music Match's Radio MX offers "near music-on-demand" CD quality streaming music radio. Essentially a software service that allows a user to flexibly listen to online streaming radio as well as their own CDs or digital music formats.	\$40-\$59	165,000 (Radio MX)
MusicNet.com	The joint venture between Real Networks, AOL Time Warner, Bertelsmann and EMI offering subscribers digital music streaming and downloads. Distribution of music through RealOne service and AOL.	\$119-\$215	–
PressPlay.com	Digital music property with partnerships with all five major music labels. Affiliated with Yahoo!, MSN, Roxio, MP3 and Sony's music club. Offers streaming, downloads, burn to CD and file share between members.	\$119-\$215	–
RealOne Music	100 downloads, 100 streams per month. Its full music offering is MusicNet.	\$59	–
Rolling Stone	Offers free downloads of selected music titles as well as paid subscriptions to its article archive.	\$100	–
Streamwaves	Streaming music and radio by Genre. Able to connect with stereo.	\$150	–

Source: eMarketer, November 2002; company websites, 2002

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Seeking to avoid the mistakes of the music industry, the largest movie studios have launched a venture called MovieLink to offer competitively priced movies-on-demand over the Web. However, the rental model for movies is established whereas the “music rental” business that major labels are trying to pioneer breaks with consumer perceptions of usage. According to a Jupiter Research study, nearly twice as many online consumers are willing to pay \$17.99 for a CD that has unrestricted copy abilities versus a CD at only \$9.99 that cannot be copied. The study, which surveyed 1,700 consumers, also found that 41% of respondents said they were willing to pay more for movies that could be copied.

Regardless of what the music industry may ultimately decide to do with its channels online, however, CD sales are slowing. While labels point to piracy as the root of this decline, there are a number of other factors that have been attributed to the decline. Among them:

- Labels investing in fewer acts hope to develop more superstars such as Britney Spears
- A backlash against label marketing with consumers seeking out more music in independent and unsigned artists
- A decline in the number of CDs bought to replace aging vinyl records
- Increasing competition from other forms of entertainment, particularly video games
- The general economic malaise in which overall spending is down, particularly on luxury items like entertainment

In any case, comScore data for 2001 and 2002 confirms that online spending on CDs reflects the general downward trend. In the third quarter of 2002, sales of recorded music were down \$77 million from their level a year ago, accelerating a trend over the previous two quarters.

US Online Sales* of Recorded Music, Q1 2001-Q3 2002 (in millions)

Q1 2001	\$262
Q2 2001	\$269
Q3 2001	\$199
Q4 2001	\$278
Q1 2002	\$230
Q2 2002	\$194
Q3 2002	\$122

*Note: *estimates include outright CD purchases, other physical recorded media and streaming online content, but exclude auction sales*
Source: comScore Networks Inc., November 2002

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Despite the slump, sales of music over the Internet will continue to grow, increasing more than fivefold 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.

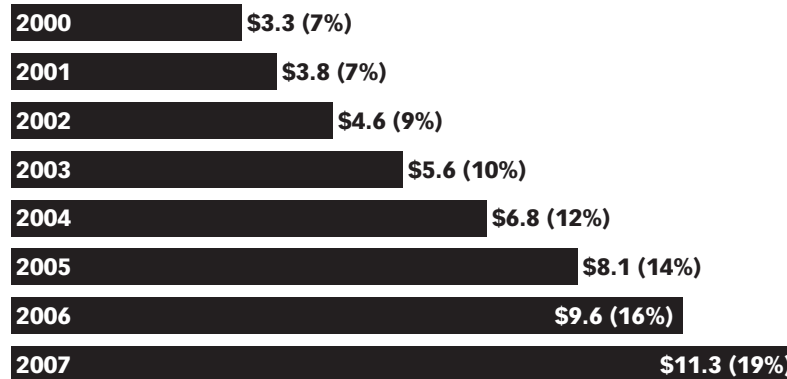
The instant availability of digital music and the proliferation of start-up online music subscription services that provide access to the music catalogs of leading recording industry companies may help digital music develop into a substantial market niche. Jupiter contends that digital music sales via 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.

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F. Books

One of the first categories of items sold online, books have been a successful staple, though they account for only about 4% of total online sales. According to Jupiter, books are expected to grow to \$11.3 billion by 2007, when their online sales will compose nearly 20% of total sales. The CAGR of online book sales from 2003 to 2007 will be 19.2%, more than the 15% once predicted as a limit by Amazon.com Jeff Bezos.

Online Retail Sales of Books, Music and Videos in the US, 2000-2007 (in billions and as a % of total US market)



Source: Jupiter Research, November 2002

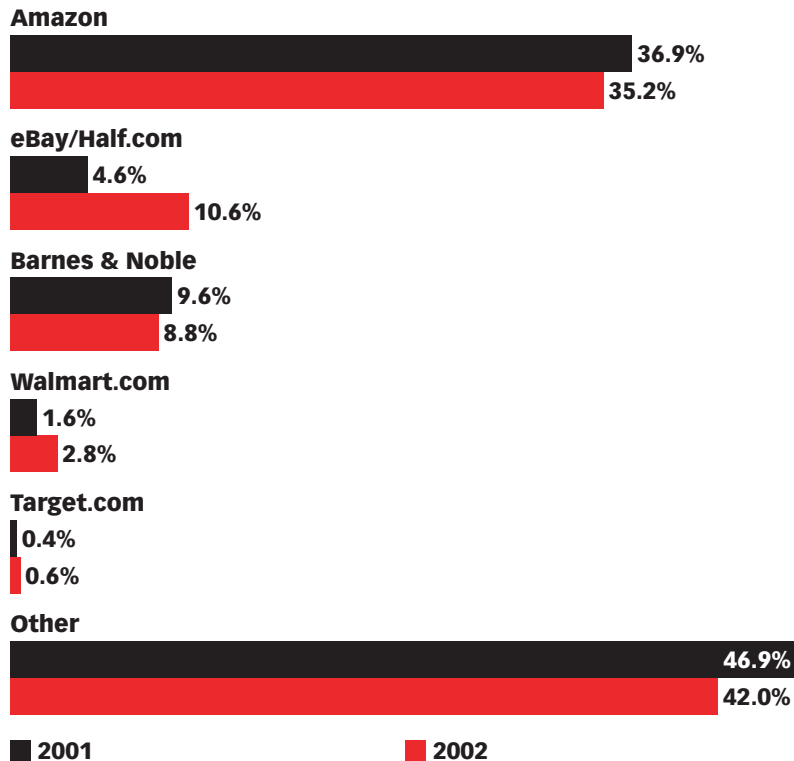
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Amazon was, of course, among the first companies to sell via the Web, and remains a leader in the category as well as in its companion categories of music and video, according to Goldman Sachs et al. While the retailing leader saw its share drop slightly in 2002 amidst large gains by eBay, it still commands roughly four times the market share of rival Barnes & Noble. Note, however, that books have become a widely distributed commodity online, and while the share of other retailers also came down a notch in 2002, their aggregate share of the pie is still larger than Amazon's.

US E-Retailers' Share of Online Book, Music & Video Purchases, 2001 & 2002



Source: Goldman Sachs, Harris Interactive, Nielsen//NetRatings, December 2002

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While the Internet has emerged as a significant channel for books, it trails bookstores and even book clubs as a distribution source. According to Ipsos-NPD, the Internet picked up about a percentage point between the first half of 2001 and 2002. It was not, however, the fastest growing source, as a weak economy sent more consumers to used bookstores. Sales of new books bought in a bookstore remained largely intact, though, at 35.8% of the market, with mail order and other sources feeling some of the heat.

Books Purchased by US Consumers, by Outlet, First Half 2001 & First Half 2002

Bookstores



Book clubs



Internet



Warehouse clubs



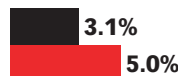
Mass merchandisers



Mail order



Used bookstores



Food/drug stores



Other



■ First half 2001

■ First half 2002

Note: Base: consumers who purchased books for someone 14+ years old, children's books excluded

Source: Ipsos-NPD, September 2002

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G. Groceries

“The only reason we chose the Internet was that it helped us reach people at a lower transaction cost. It allows us to do for food what Michael Dell did for computers.”

– Jason Ackerman, Co-Founder, FreshDirect

Perhaps even to a greater extent than apparel, groceries often favors an in-person shopping experience for such items as meats and produce. Furthermore, there are far more constraints in delivering groceries in a timely fashion than exist for any apparel. Online grocery pure plays such as Webvan, with its sophisticated delivery infrastructure, were poster children for dot-com failures. 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.

From the ashes of such fantastic flameouts, however, the online grocery initiative has created a humble phoenix. Part of the incentive is the sheer size of the groceries market, which Jupiter Research estimates will be over \$650 billion by 2007. If even a small percentage of the market goes online, that represents a significant opportunity. Forrester Research estimated that the US online food-and-beverage business generated \$2.4 billion in sales in 2001. Forrester also estimates that the number of households buying online is expected to more than triple from 2001 to 2006.

US Households Buying Groceries Online, 2001 & 2006 (in millions)

2001	4.5
2006	14.0

Source: Forrester Research, 2002; The New York Times, May 2002

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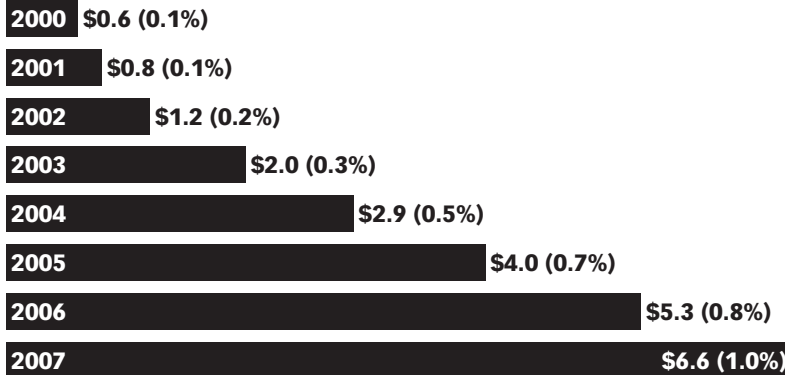
As has often been the case with former dot-com phenomena, brick-and-mortar companies have picked up some of the pieces, with slightly more business discipline. Peapod, one of the earliest online groceries, has become a service of traditional supermarkets such as Stop 'n' Shop and Giant.

California's mammoth \$34-billion-a-year supermarket chain Safeway, as well as New York regional supermarket D'Agostino's, have begun online ordering programs. Furthermore, in what seems like an anachronism, FreshDirect, a new venture in the New York City area, has begun delivering goods throughout Manhattan. The founders, one of whom founded a successful produce market, report that the venture is already profitable and are expecting revenues of over \$200 million this year.

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Despite such glimmers of hope, Jupiter Research has dramatically lowered its forecast for online groceries, seeing the market grow to \$6.6 billion by 2007. Previously, the research group had forecast the market growing to \$11.3 billion in 2006.

Online Retail Sales of Groceries and Pet Supplies in the US, 2000-2007 (in billions and as a % of total US market)



Source: Jupiter Research, November 2002

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H. Automobiles

Automobiles remain an interesting category online because of the high cost, customization, and complex distribution. It is perhaps the only category where researchers generally include transactions that actually consummate offline, taking into account the special nature of automotive dealership networks. Indeed, were estimates to include only cars purchased directly from factories or carsdirect.com, figures would grossly underestimate the value of the market.

That said, according to Nielsen/NetRatings, none of the most-visited sites for at least one week in January 2003 were owned by car companies; in fact, the only auto manufacturer to hit the top 10 was Ford. In addition to the big portals of AOL, Yahoo!, and MSN, content sites such as Edmunds and Kelley Blue Book have proved popular.

Top 10 Automotive Sites among At-Home Internet Users in the US, Week Ending 12 January 2003 (in thousands)

	Unique audience	Active reach	Time per person (hr:min:sec)
eBay Motors	2,207	2.66%	0:27:19
AOL Auto	858	1.04%	0:07:27
Kelley Blue Book	828	1.00%	0:09:44
AutoTrader.com	628	0.76%	0:13:45
MSN Autos	556	0.67%	0:05:22
Ford Motor Company	555	0.67%	0:10:58
Yahoo! Autos	470	0.57%	0:06:55
Edmunds.com	426	0.51%	0:08:46
Autoweb.com	409	0.49%	0:00:47
Cars.com	398	0.48%	0:09:12

Source: Nielsen//NetRatings, January 2003

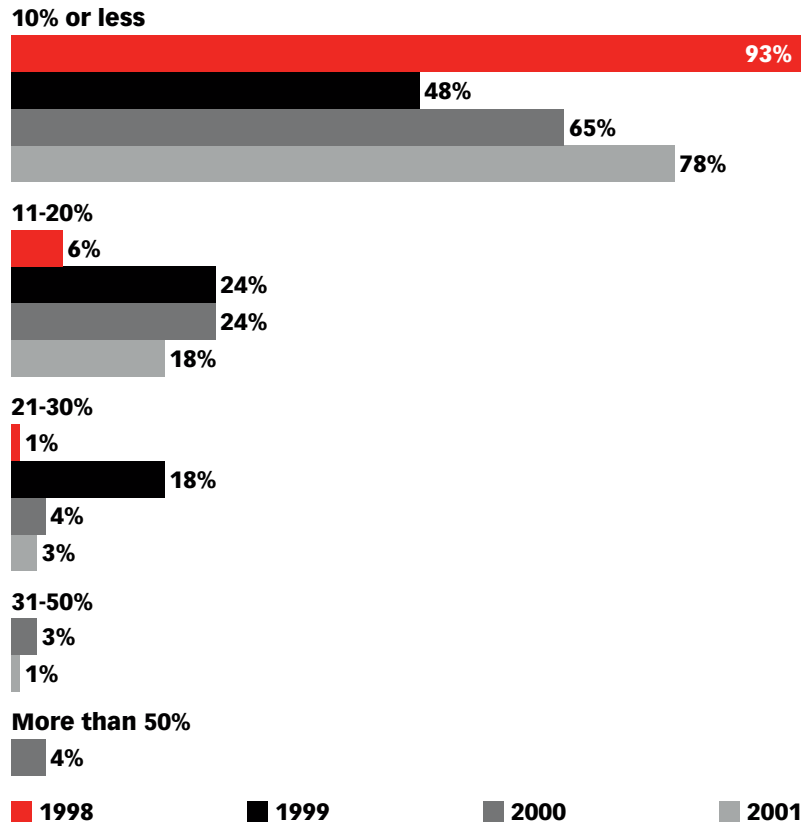
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EDS has tracked sales of auto dealerships generated across the Internet. The outsourcing firm found that, while the Internet is still responsible for a relatively small number of leads for most dealers, 2001 marked the first year for which some dealers reported that more than 50% of their leads came from the medium, an impressive percentage given that 70% still report that 10% or fewer of their leads come from the Net. The mainstream auto dealerships seem to have seen a retreat from 1999 and 2000.

Sales Leads of US Auto Dealers Generated via the Internet, 1998-2001 (as a % of total)



Note: n=100

Source: EDS, March 2002

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The lack of traffic to the major car manufacturers could be seen as a blow to their brands but, according to Advertising Age, most major auto manufacturers devote what could be a rounding error in their massive advertising budgets to the Internet. Major car companies are also featuring their URLs in their television advertising. The Net had mixed results for most auto manufacturers in 2001; while General Motors, Ford, Honda, and Mitsubishi cut the percentage of their spending online, Daimler Chrysler, Volkswagen, Toyota, Volkswagen, and Nissan Motors increased their online percentage spending (Nissan by a significant margin). Nissan's increase

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comes after a lawsuit over the domain name Nissan.com, although the site is currently being used for noncommercial purposes and is apparently still owned by the US-based Nissan Computer Corporation.

Leading US Automotive Manufacturers' Online Advertising Spending, 2000 & 2001 (as a % of total advertising budget)

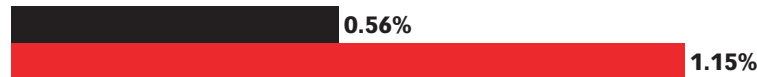
General Motors Corp.



Honda Motor Co.



Nissan Motor Co.



Volkswagon



DaimlerChrysler



Ford Motor Co.



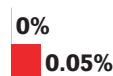
Mitsubishi Motors Corp.



Toyota Motor Corp.



Kia Motors Corp.



2000

2001

Source: Advertising Age, June 2002

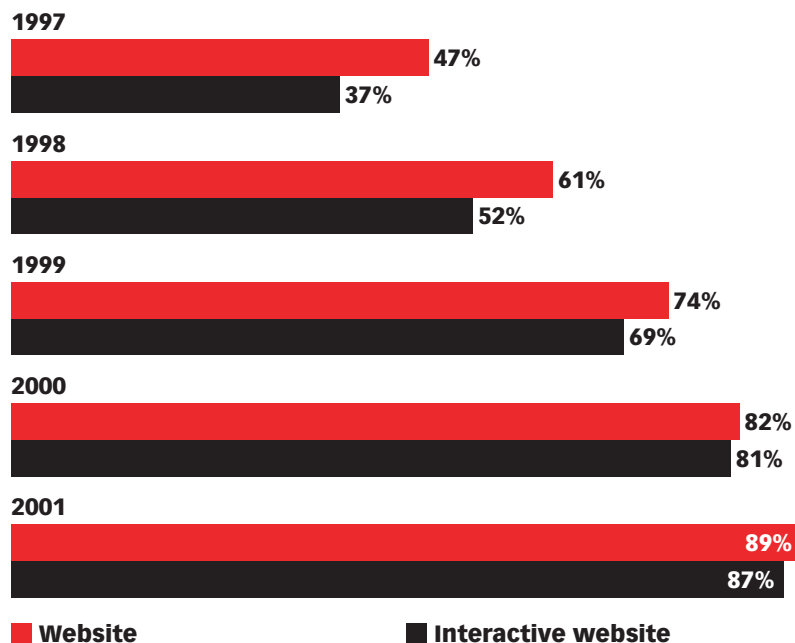
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One trend that has endured, however, is US auto dealers' increasing usage of the Web, according to the National Automobile Dealers Association. Since 1997, the percentage of dealers with a Web site has risen dramatically; the percentage with an interactive Web site has more than doubled. Furthermore, there has been an increasing understanding that a Web site is more than just "brochureware" as the gap between those dealerships that have just a Web site and an interactive site has narrowed significantly. Nonetheless, according to Taylor Nelson Sofres, the US is among seven countries in which only 1% of the population buys cars online, trailing leader Germany.

Percent of US Auto Dealerships with a Web Site, 1997-2001



Source: National Automobile Dealers Association (NADA), September 2002

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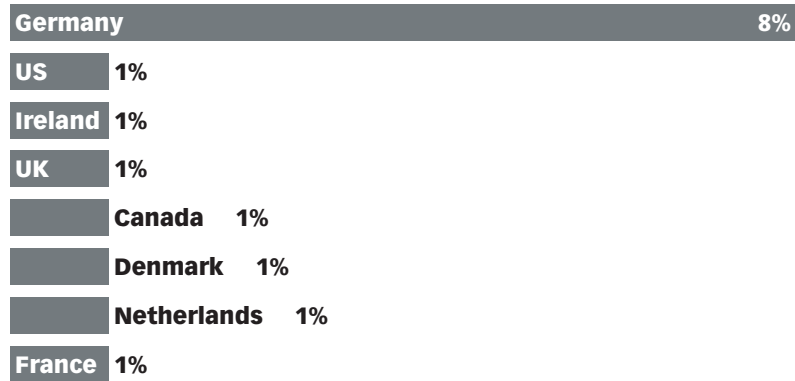
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Countries with the Largest Proportion of Online Buyers Who Purchase Cars Online, 2002



Source: Taylor Nelson Sofres (TNS), June 2002

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I. Online Entertainment

“The year 2002 will go down as the year in which the conventional wisdom about paid online content changed. Whether or not consumers will pay for content is no longer a matter of debate. Clearly, they will.”

– Michael Zimbalist, executive director, Online Publishers Association

While the frustrating experience of the dial-up Internet has not traditionally been thought of as an entertainment medium for most users, that is starting to change with the advent of broadband, so much so that major studios are now making motion pictures available over broadband connections. Broadband is also seen as key to America Online, which hopes to offer more exclusive content and services that take advantage of faster access.

According to Ipsos-Reid, use of digital media is growing online. Among users surveyed, the most popular activity in 2002 was exchanging pictures or videos. The two categories that had been measured in previous years, playing online video games and downloading music files, also showed increases from previous years.

Digital Entertainment Activities of Internet Users Worldwide, 1999, 2000 & 2002 (as a % of respondents)

Sent or received pictures or videos

68%

Downloaded a music file

35%

38%

44%

Played an online video game

31%

38%

Burned a CD of digital music file downloaded online

24%

■ 1999

■ 2000

■ 2002

Source: Ipsos-Reid, February 2003

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Jupiter Media Metrix predicts that by 2006, music and games will be the leading online entertainment sites. The researcher sees more than 100 million users visiting these sites, while sports sites will receive only 59 million users. That music is expected to lead all categories reflects the universal appeal of the medium and the relative ease of consuming such media on the Web.

US Internet Users Visiting Online Entertainment Sites Regularly, by Genre, 2006 (in millions)

Music	109.6
Games	101.3
Film	67.4
Sports	59.0

Source: Jupiter Media Metrix, Inc., 2002; USA Today, June 2002

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One form of adult entertainment that has garnered significant interest online is gambling. Estimates for online gambling revenues place revenues between \$4.2 billion and \$6 billion in 2003. Informa Media Group, which has estimated online gambling revenue since 2000, believes that the activity's revenue has grown over \$4 billion between 2000 and 2003.

Comparative Estimates: Online Gambling Revenues Worldwide, 2000-2003 (in billions)

	2000	2001	2002	2003
Bear Stearns, 2002	–	–	–	\$4.20
Christensen Capital Advisers, 2002	–	–	–	\$6.03
Datamonitor, 2001	–	\$4.20	–	–
Informa Media Group, 2002	\$1.68	\$2.55	\$3.82	\$5.71
RiverCity Group, 2002	–	–	\$3.00	–

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

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Datamonitor believes that the US market for online gaming will more than quadruple from 2002 to 2005, when it will reflect 31% of the \$2.9 billion global market.

Online Gaming Revenues Worldwide, by Region, 2002 & 2005 (in millions)

Asia-Pacific



US



Europe



Total



■ 2002 ■ 2005

Source: Datamonitor, 2002

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Consumer spending on personals and dating skyrocketed in 2002, according to the OPA and comScore. Such material generated more than \$70 million more than the entertainment and lifestyles category that once exceeded it. The category even eclipsed spending on business content, which also grew substantially in 2002.

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US Consumer Spending on Online Content, by Content Category, 2001 & 2002 (in millions)

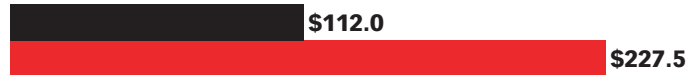
Personals/dating



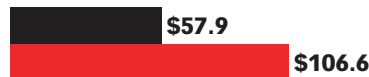
Business content/investment



Entertainment/lifestyles



Research



Community-made directories



Games



General news



Personal growth



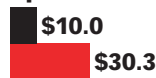
Credit help



Greeting cards



Sports



2001

2002

Source: Online Publishers Association (OPA)/comScore Networks Inc., March 2003

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One key question for online paid content is payment methods. Despite the success of at least one alternative payment system, eBay's PayPal, micropayments never materialized as a mainstream way to pay for online content. Most sites monitored by the OPA and comScore skewed toward a model that included subscriptions.

Single Purchases vs. Subscription Sales of Online Content in the US, by Category, 2002

Personals/dating



Greeting cards



Entertainment/lifestyles



Business Content/Investment



Credit help



Community-made directories



Personal growth



General news



Sports



Research



Games



■ Single purchases ■ Subscriptions

Source: Online Publishers Association (OPA)/comScore Networks Inc., March 2003

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Given the prevalence of business content, one might assume that businesses represent the largest customer base for such services. According to IDC, however, more than four times as many consumers as organizations purchased online content in 2002, and consumers are expected to retain almost all of that lead in 2006.

Online Content Buyers in the US, by Customer Type, 2002 & 2006 (in millions)

Consumers



Organizations



Total



■ 2002

■ 2006

Source: International Data Corporation (IDC), May 2002

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While the answer to the question of their ultimate profitability lies ahead, an eclectic array of paid content services has been able to find subscribers on the Internet. Classmates.com, one of the lowest-priced services, has acquired the most paying subscribers. On the other hand, dating service Match.com charges \$24.95 per month. Of course, pricing can be manipulated by online providers to favor certain plans; for a one-month membership, WeightWatchers.com charges \$44.95, yet subscribers pay \$20 a month with the quarterly plan.

Leading Subscription Content Properties in the US Ranked by Paid Subscribers, November 2002

	Category	Paid subscribers (approximate)	Payment plans
Classmates.com	Consumer Information/Directory	1,750,000	\$36 per year
Yahoo!*	Portal	1,550,000	\$4.95-\$19.95 per month
American-Greetings; BlueMountain; eGreetings	Entertainment	1,400,000	\$9.95-\$11.95 per year
Terra Lycos	Portal	1,140,000	\$4.95-\$24.95 per month

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Consumer-Reports.org	Consumer Info/Directory	1,000,000	\$3.95 per month; \$24 per year
RealOne.com	Portal	850,000	\$9.95 per month
CBS Sportsline (fantasy)	Sports	800,000	\$9.95-\$249.99 per team or league
Ancestry.com	Consumer Information/Directory	800,000	\$7.95-\$17.95 per month; \$80-\$190 per year
Consumer-Info.com	Consumer Information/Directory	750,000	One off charges ranging from \$5-\$35 plus subscription service \$80 per year
Wall Street Journal	News/Current Affairs	664,000	\$79 per year
Match.com	Personals	653,182	\$24.95 per month
eUniverse	Entertainment	445,000	Cupid Junction- pay-per-contact from \$4.95-\$39.95; FlowGo Fun Club- \$79.95 per year
Everquest (Sony Online Entertainment)	Games	430,000	\$12.95 per month
SportingNews (fantasy)	Sports	300,000	\$17.95 per game or packages
Weight-Watchers	Diet/Health/Fitness	250,000	\$44.90 for 1 month or \$59.95 for 3 months
Kiss/ UDate	Personals	237,000	\$24.95 per month; \$74.95 per year
eDiets	Diet/Health/Fitness	200,000	\$10-\$15 per month
Audible	Entertainment	182,000	\$12.95-\$15.95 per month
MusicMatch	Music	165,000	\$4.95 per month; \$39.95 per year
Economist	News/Current Affairs	140,000	\$19.95 per month
Playboy	Entertainment	140,000	\$7.95-\$24.95 per month
Morningstar	Personal Finance/Investment	101,000	\$11.95 per month
ESPN (Insider)	Sports	100,000	\$4.95 per month; \$39.95 per year
TheStreet	Personal Finance/Investment	80,000	\$14.99-\$250 per month
IGNInsider	Games	68,000	\$5.95 per month; \$24.95 per year
Rivals	Sports	60,000	\$4.95-\$9.95 per month
eMusic	Music	60,000	\$9.99 per month
Britannica.com	Education/Reference	50,000	\$9.95 per month; \$59.95 per year

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Salon	News/ Current Affairs	47,700	Without ads- \$30 per year; with ads- \$6 per month; \$18.50 per year
eLibrary	Consumer Information/ Directory	47,000	\$14.95 per month; \$79.95 per year
Genealogy.com	Consumer Information/ Directory	45,000	\$9.99-\$14.99 per month
New York Times Crosswords	Games	40,000	\$4.95 per month; \$19.95 per year
AWS- WeatherBug	Weather	35,000	\$19.95 per year
Financial Times	News/Current Affairs	20,000	\$6.95 per month

*Note: *includes internet access subscribers*

Source: eMarketer, November 2002; InterMarket Group, August 2002

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J. Government Services

E-Commerce is often thought of as being either B2B or B2C, but those constructs can overlook the largest purchaser of goods and services in the US, the government. Especially with the budgetary pressures being faced by administrations today, the Internet generally provides a cost-effective way of disseminating information and conducting transactions.

According to the Smith School of Business at the University of Maryland, federal taxes were the most popular service used by the 85 respondents surveyed by the graduate school's Center for e-Service. Consumers also took advantage of online state tax payment, which was the most popular online service at the local or state level, just beating out obtaining DMV (Department of Motor Vehicles) information.

Types of E-Government Business/Transactions Conducted by Adults in the US during the Past 12 Months, December 2002 (as a % of respondents)

General taxes



General information/research/browsing



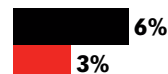
Forms



Health



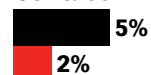
Education



Employment/work



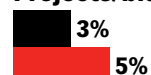
Contact information



Personal information



Projects/bids/sales



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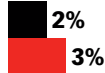
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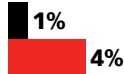
Banking



Business/company related



Permits



DMV information



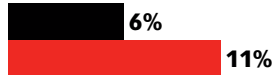
Local information (maps, parks, zoning, etc.)



Unemployment



Other



■ Federal government

■ Local or state government

Note: n=85 respondents who have used federal government sites and 86 who have used local or state government sites

Source: Center for e-Service at the Robert H. Smith School of Business, University of Maryland; Rockbridge Associates, Inc., February 2003

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Also according to a Smith Business School study that used a somewhat larger pool of respondents, most adults had more experience both with visiting and conducting business with state or local Web sites vs. federal government sites. In all cases, men were slightly more likely to have experience with these sites than women, particularly in visiting federal sites. This is consistent with the notion that state and local ordinances tend to have a greater effect on the daily lives of most Americans than federal laws. The graduate school also found, however, that while the percentage of US adults visiting any government site decreased slightly from 2001 to 2002, the percentage doing business with such sites increased marginally between the two years.

US Adults' E-Government Usage during the Past 12 Months, by Gender, December 2002 (as a % of respondents)

	All adults	Males	Females
Visited local/state government Web site	39%	43%	34%
Conducted business with local/state government online	19%	23%	15%
Visited federal government Web site	33%	43%	29%
Conducted business with federal government online	14%	22%	18%

Note: All adults - n=422, Males- n=176, Females- n=246

Source: Center for e-Service at the Robert H. Smith School of Business, University of Maryland; Rockbridge Associates, Inc., February 2003

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US Adults' E-Government Usage during the Past 12 Months, 2001 & 2002 (as a % of respondents)

Visited government Web site (local, state, federal)



Conducted business with government online (local, state or federal)



■ 2001

■ 2002

Note: 2001 n=418, 2002 n=422

Source: Center for e-Service at the Robert H. Smith School of Business, University of Maryland; Rockbridge Associates, Inc., February 2003

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Of course, not all states have rushed to embrace the Internet equally. Most US state Web sites offer no online services. And in many states, fewer than 25% of government sites offer online services, according to Brown University research. There seemed to be no geographic or population pattern to which states offered such services, and the percentage of Web sites offering online services does not seem to take into account the total number of state Web sites, which could be significantly larger for states with bigger populations and budgets.

Percent of US State Web Sites Offering Online Services, 2002

AR	48%	MO	22%
IL	41%	IA	21%
AZ	39%	MD	19%
WA	39%	ME	19%
CA	38%	NE	19%
TN	37%	TX	19%
IN	35%	OK	18%
SD	35%	ND	15%
UT	35%	NH	15%
FL	32%	OR	15%
KS	32%	NM	15%
VA	32%	OH	15%
AK	31%	MT	14%
PA	30%	KY	14%
MI	29%	CO	13%
ID	27%	LA	13%
NY	26%	MS	13%
MA	25%	CT	12%
MN	25%	WV	9%
NJ	25%	SC	8%
NC	23%	RI	8%
NV	23%	WI	5%
HI	23%	AL	5%
DE	22%	VT	4%
GA	22%	WY	0%

Source: Brown University Taubman Center for Public Policy, September 2002

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“With more than half of our online population using broadband, it’s clear that Canadians are hooked on speed. The cable and telephone infrastructure in this country has allowed broadband service to flourish, and Canadian activity within the digital media landscape has responded accordingly.”

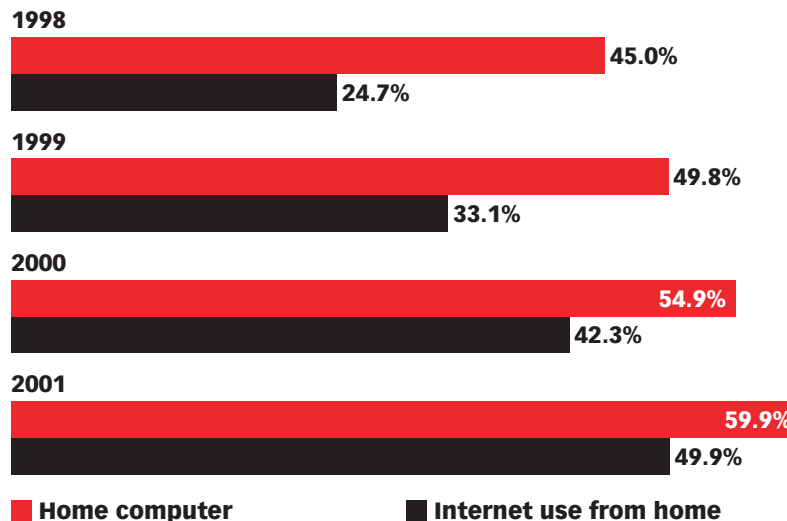
– Brent Lowe-Bernie, president, comScore Media Metrix Canada

Internet usage in Canada has developed in marked contrast to the US Internet penetration, and in particular e-commerce, has grown at a slower rate, and the much smaller population of Canada has led to less of an e-commerce ecosystem overall in the country. That said, broadband penetration is higher than it is in the US, which could pave the way for rapid growth of e-commerce in the next few years.

A. Online Population

An educated, relatively affluent population living predominantly in major cities, combined with good fixed infrastructure and high usage of other media, has been a good recipe for widespread Internet use in Canada. As we’ve seen in the US, home PC ownership is starting to become more strongly correlated to Internet usage from home.

Home Computer and Home Internet Usage Penetration in Canada, 1998-2001 (as a % of households)



Source: Statistics Canada, November 2002

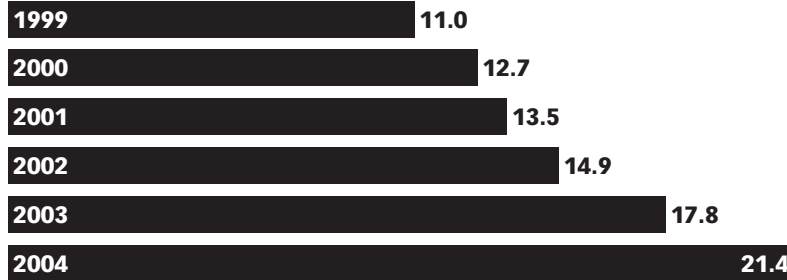
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Based on data from the International Telecommunication Union and comparative estimates from several research firms, eMarketer estimates that 17.8 million Canadians currently use the Internet; this number will grow to 21.4 million next year

Internet Users in Canada, 1999-2004 (in millions)



Note: eMarketer's year 2001 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
Source: eMarketer, May 2002

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According to eMarketer's estimates, 46.5% of the Canadian population had Internet access at the end of 2002. This compares with a penetration rate in the US of 54.5% and Japan and the UK at nearly 48%. By 2004, however, nearly two-thirds of the Canadian population will be online, a figure which will lead the G7 group of nations.

Internet Users in G-7 Countries, 2000-2004 (as a % of each country's total population)

	2000*	2001*	2002	2003	2004
Canada	40.6%	42.7%	46.5%	55.3%	65.8%
France	14.3%	26.4%	35.5%	41.7%	44.4%
Germany	29.0%	36.1%	44.1%	48.8%	50.8%
Italy	22.9%	27.7%	33.3%	36.5%	37.9%
Japan	29.4%	45.7%	47.9%	51.2%	54.7%
UK	30.2%	40.2%	47.8%	52.4%	54.3%
US	45.0%	51.4%	54.5%	57.2%	61.3%

*Note: *eMarketer's year 2000 and 2001 baselines are 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*

Source: eMarketer, May 2002

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There is significant disparity among research firms measuring the Canadian Internet sector. eMarketer projects the online population to rise to 21.4 million in 2004, 2.3 million less than IDC's projection but well ahead of the estimate by PricewaterhouseCoopers and Wilkofsky Gruen Associates.

Comparative Estimates: Internet Users in Canada, 2000-2006 (in millions)

	2000	2001	2002	2003	2004	2005	2006
comScore Networks, September 2002	11.9	–	15.9	–	–	–	–
eMarketer, May 2002 (1)	12.7	13.5	14.9	17.8	21.4	–	–
eTForecasts, July 2001	15.2	17.2	–	–	–	–	–
International Data Corporation (IDC), April 2002	12.7	18.8	–	–	23.7	–	25.2
Nielsen//NetRatings, June 2002	–	–	16.8	–	–	–	–
PricewaterhouseCoopers (PwC)/Wilkofsky Gruen Associates, May 2002	11.9	12.5	13.2	14.0	15.0	16.0	17.0
Taylor Nelson Sofres, June 2002	–	18.6	18.8	–	–	–	–

Note: (1) eMarketer's year 2000 and 2001 baselines are 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

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

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comScore Networks' panel measurement service reported that Canada's home Internet users totaled 15.9 million in September 2002, up from 11.9 in May 2000.

Internet Users at Home in Canada, May 2000 & September 2002 (in millions)

May 2000	11.9
September 2002	15.9

Source: comScore Networks Inc., October 2002

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Nielsen//NetRatings data shows that at-home Internet users in Canada hovered around the 17 million mark for the first 6 months of 2002.

Internet Users in Canada, January 2002-June 2002 (in millions)

January 2002	16.9
February 2002	17.0
June 2002	16.8

Note: at-home users
Source: Nielsen//NetRatings, 2002

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Taylor Nelson Sofres shows that 60% of Canada's population (equating to 18.6 million) were Internet users in 2001 and 2002.

Internet Users in Canada, 2001 & 2002 (as a % of total population)

2001	60%
2002	60%

Source: Taylor Nelson Sofres (TNS), June 2002

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eMarketer estimates that at the end of 2002, there were 7.2 million online households in Canada, up from 5.1 million in 2000. This equates to 44% of Canadian households online in 2000, rising to over 60% at the end of 2002.

Online Households in Canada, 2000-2002 (as a % of total households)

2000	44.0%
2001	53.4%
2002	60.5%

Source: eMarketer, January 2003

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Statistics Canada's data shows that more than 5.8 million Canadian households, representing 49% of the nation's households, had at least one person regularly using the Internet from home in 2001. This represented a 23% jump from 2000, when 4.7 million households reported using the Internet. Some 7.2 million Canadian households – 60% of the household population – had one or more members who used the Internet regularly from any location.

Canadian Households with At Least One Regular Internet User*, by Province, 1998-2001 (as a % of households in each province)

	1997	1998	1999	2000	2001
Alberta	34.0%	45.0%	50.8%	58.8%	65.3%
British Columbia	33.2%	42.0%	48.1%	55.9%	65.3%
Ontario	32.9%	39.1%	44.5%	54.2%	63.7%
Nova Scotia	31.8%	37.8%	41.1%	52.0%	57.4%
Manitoba	28.8%	33.3%	38.3%	49.8%	56.7%
New Brunswick	28.1%	31.0%	38.0%	45.2%	52.4%
Saskatchewan	26.4%	33.7%	39.9%	46.9%	52.6%
Newfoundland and Labrador	26.1%	28.8%	35.2%	45.5%	50.2%
Prince Edward Island	25.7%	35.4%	40.5%	51.1%	57.8%
Quebec	19.8%	26.2%	33.1%	43.6%	53.7%
Canada	29.0%	35.9%	41.8%	51.3%	60.2%

Note: *from any location

Source: Statistics Canada, April 2002

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Yankee Group estimates are in line with this figure. The researcher projects that 7.3 million Canadian households will be online in 2004, up from 5.7 million in 2001.

Online Households in Canada, 1999-2004 (in millions)

1999	3.4
2000	4.6
2001	5.7
2002	6.4
2003	7.0
2004	7.3

Source: Yankee Group, April 2002

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PricewaterhouseCoopers sees usage growth happening more linearly than Yankee Group, which sees declining growth in 2004. PwC forecasts 54% of the nation will be online by 2006.

Internet Users in Canada, 2001-2006 (in millions and as a % of the population)

2001	12.5 (41.0%)
2002	13.2 (43.0%)
2003	14.0 (45.3%)
2004	15.0 (48.2%)
2005	16.0 (51.1%)
2006	17.0 (54.0%)

Source: PricewaterhouseCoopers (PwC), Wilkofsky Gruen Associates, NUA, IDC, May 2002

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While Canada may lag the US in terms of penetration, however, it leads in broadband. This is due to more affordable pricing and Canada's relative late start getting online. There is a lower base of consumers who need to transition to broadband from dial-up. This could lead to a richer base for online shopping over the next two years.

Broadband Penetration in North America, by Country, 2000-2005 (as a % of total households)

	2000	2001	2002	2003	2004	2005
Canada	12.0%	23.3%	28.5%	35.9%	43.9%	50.7%
US	3.9%	10.5%	15.9%	22.0%	27.2%	32.2%

Source: eMarketer, March 2003

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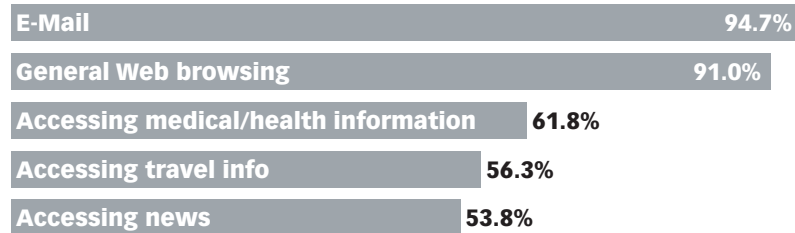
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B. Shoppers

According to Statistics Canada, while accessing travel info was an online activity pursued by more than half of Canadians, general shopping was not listed among the top five activities. This represents a contrast from surveys of US consumers, who frequently cite shopping or researching products among their most frequent online activities.

Top Five Online Activities among At-Home Internet Users in Canada, 2001 (as a % of Internet users)



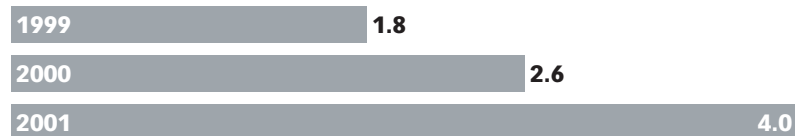
Source: Statistics Canada, April 2002

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While online shopping grew dramatically since 1999, Statistics Canada estimates that 4 million Canadian households shopped online in 2001, or about a third of the population.

Canadian Households Shopping or Buying Online, 1999-2001 (in millions)



Source: Statistics Canada, July 2002

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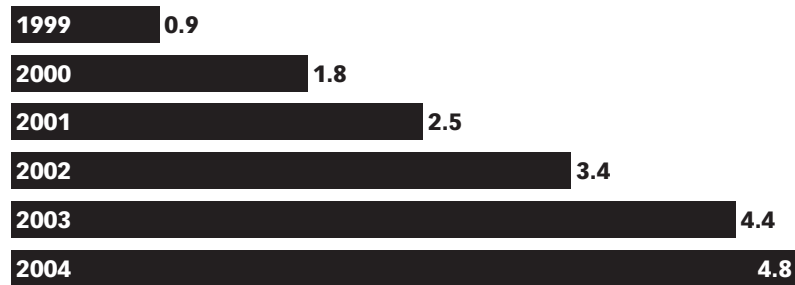
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C. Buyers

Buyers, the subset of shoppers who actually make an online purchase, are a significant indicator of online e-commerce. Multiplying the number of buyers by the average size of a transaction yields an estimate of total e-commerce.

After several years of linear growth, Yankee Group sees the number of Canadian online buyers growing only slightly in 2004.

Number of Canadian Households Making Online Purchases, 1999-2004 (in millions)



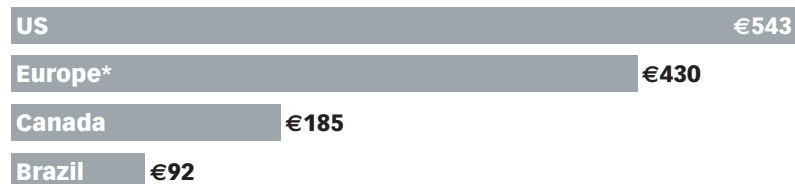
Source: Yankee Group, April 2002

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According to AOL Europe/RoperASW, Canadians lag far below Americans and Europeans in their average amount of money spent online, coming in at less than half the average of the three largest European economies.

Amount Spent Online during the Past Three Months by Online Buyers in Select Countries Worldwide, October-November 2002 (in €)



Note: *includes France, Germany and the UK

Source: AOL Europe/RoperASW, March 2003

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NFO CFgroup estimated in December 2002 that approximately 40% of Canadian Internet users have abandoned at least one virtual shopping cart on a Canadian retail Web site. Despite the incomplete transaction rate, Ipsos-Reid noticed a slight increase in online spending among Canadian Internet users in 2002. The firm projected a total online holiday gift-giving expenditure of CAD1.6 billion dollars for the 2002 holiday shopping period, eclipsing the previous year's CAD1.1 billion.

Online Holiday Shopping Spending in Canada, 2001 & 2002 (in billions of CAD)

2001	\$1.1
2002	\$1.6

Source: NFO CFgroup, December 2002

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The number of Canadian online shoppers is rising – from 51% in 2001 to 55% in 2002, according to Ipsos-Reid. However, their average spending is in decline. The research firm reports that the typical Canadian adult planning online gift purchases during the 2002 holiday season expected to spend an average of CAD320 online, down from the CAD365 planned for online purchases during the previous year's holiday season.

Online Holiday Shopping Spending per Shopper in Canada, 2001 & 2002 (in CAD)

2001	\$365
2002	\$320

Source: NFO CFgroup, December 2002

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D. E-Commerce Totals

The proportion of private sector businesses selling goods and services online rose marginally from 6.7% in 2001 to 7.5% in 2002, according to the Survey of Electronic Commerce and Technology. Yet, the value of online orders rose 28.4% from 2001 to CAD13.3 billion in 2002. This follows an increase of 84.1% in online sales in 2001. Despite the overall growth, e-commerce sales still accounted for only 0.6% of total private sector operating revenue in 2002, up from 0.5% in 2001 and from 0.2% in 1999. The dollar value of business-to-consumer sales rose 58.5% to CAD3.7 billion in 2002.

B2C E-Commerce in Canada, 2001 & 2002 (in billions of CAD)

2001	\$2.3
2002	\$3.7

Source: Statistics Canada, April 2003

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An estimated 2.2 million Canadian households spent almost \$2 billion purchasing goods and services on the Internet in 2001, Statistics Canada reported in July 2002.

These households placed 13.4 million orders over the Internet from various locations, not just at home. In 2001, an estimated 4 million households – or approximately one-third of all households in Canada – had at least one member that used the Internet to support purchasing decisions, either by window shopping or placing online orders. Just over 57% of these 4 million households made a commitment to order, and in four out of five cases paid for items over the Internet.

Online Shopping Habits in Canada, 2001

Online households (in millions) (1)	7.2
Internet shoppers (in millions) (2)	4.0
Window shoppers only (in millions) (3)	1.7
Electronic commerce users (in millions) (4)	2.2
Electronic payment users (in millions) (5)	1.8
Amount spent online (in billions)	\$2.0
Number of orders placed via the Internet (in millions)	13.4

Note: (1) at least one Internet user in household that uses the Internet from any location in a typical month; (2) Internet users who either browsed or purchased online; (3) Internet users who have browsed but not purchased online; (4) Internet users that have ordered and/or paid for goods or services online; (5) Internet shoppers who have made an online payment for at least one of their transactions

Source: Statistics Canada, July 2002

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Yankee Group projected has projected that the number of Canadian households making B2C purchases would grow from 2.5 million in 2001 to almost 4.8 million in 2004. The firm estimates that the market will increase in size from \$1.6 billion in 2001 to \$7.2 billion in 2004.

B2C E-Commerce Market in Canada, 2001 & 2004 (in billions)

2001	\$1.6
2004	\$7.2

Source: Yankee Group, April 2002

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IDC has projected that B2C spending in Canada would increase from CAD7.5 billion in 2001 to CAD49 billion by 2006. This represents a compound annual growth rate of 45.6% and jump from 2.8% to 16.5% of total retail sales in Canada being conducted online.

B2C E-Commerce in Canada, 2001 & 2006 (in billions of CAD and as a % of total retail sales)

2001	\$7.5 (2.8%)
2006	\$49.0 (16.5%)

Note: CAGR=45.6%

Source: International Data Corporation (IDC), July 2002

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E. Per Capita Internet Expenditures

Statistics Canada reports that Canadians more than doubled their total spending on online purchases from \$0.42 billion in 1999 to \$1.11 billion in 2000. That amount nearly doubled again to reach \$1.98 billion in 2001. As Statistics Canada reported in April 2003, the dollar value of Canadian B2C sales rose 58.5% in 2002.

Total B2C E-Commerce within and Outside Canada, by Region, 1999-2001 (in millions)

	1999	2000	2001
Atlantic provinces	\$22	\$68	\$129
Quebec	\$38	\$144	\$204
Ontario	\$185	\$529	\$828
Manitoba and Saskatchewan	\$19	\$59	\$97
Alberta	\$50	\$160	\$212
British Columbia	\$103	\$145	\$505
Canada (total)	\$417	\$1,105	\$1,975

Note: 2001 survey includes Internet shopping for household purposes from any location, while 1999 and 2000 only include Internet shopping from home

Source: Statistics Canada, July 2002

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Among various Canadian regions, Ontario and British Columbia emerged as the leaders in B2C e-commerce spending. This may be due in part to their proximity to the US and population centers of Vancouver and Toronto.

B2C E-Commerce Spending in Canada, by Region, 1999-2001 (as a % of total spending)

	1999	2000	2001
Atlantic provinces	3.9%	6.8%	6.9%
Quebec	8.4%	14.9%	9.4%
Ontario	45.8%	45.0%	40.5%
Manitoba and Saskatchewan	4.4%	5.2%	3.9%
Alberta	11.0%	15.8%	10.0%
British Columbia	26.5%	12.4%	29.3%

Note: 2001 survey includes Internet shopping for household purposes from any location, while 1999 and 2000 only include Internet shopping from home

Source: Statistics Canada, July 2002

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F. E-Commerce Factors

Online privacy concerns are prevalent in Canada, and are strong even among online buyers, who have on some level overcome those concerns. Overall, Statistics Canada found that nearly 80% of Canadian Internet users were concerned or very concerned about their privacy. The number was only marginally lower for online buyers, where 24% of surveyed respondents were not concerned.

Canadian Online Households' Level of Concern Regarding Online Privacy, by Type of User, 2001 (as a % of respondents)

	Very concerned	Concerned	Not concerned
All users	38.5%	38.7%	21.2%
Online shoppers*	38.6%	39.8%	20.9%
Window shoppers**	43.5%	39.4%	16.9%
Online buyers***	34.7%	40.2%	24.0%

*Note: Households that accessed the Internet from any location were asked, "In general, how concerned are you about privacy on the Internet (e.g., people finding out which Web sites you have visited, others reading your e-mail)."; *Regular-use households that engaged either in window shopping or electronic commerce; **households where all members reported only to have browsed for goods or services using the Internet; ***households where at least one member was reported to have ordered and/or paid for goods or services using the Internet*
Source: Statistics Canada, November 2002

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Overall, more online Canadians said they were not concerned about security, but those who were concerned tended to feel more strongly. 45.3% of all users and 39.6% of online buyers said they were very concerned about security, a higher percentage than those who responded they were very concerned about privacy.

Canadian Online Households' Level of Concern Regarding Online Security, by Type of User, 2001 (as a % of respondents)

	Very concerned	Concerned	Not concerned
All users	45.3%	29.0%	23.5%
Online shoppers*	45.3%	30.8%	23.0%
Window shoppers**	50.9%	28.3%	20.3%
Online buyers***	39.6%	33.2%	26.0%

*Note: Households accessing the Internet from any location were asked, "How concerned are you about security in relation to your household's financial transactions conducted over the Internet?" Transactions are purchases made over the Internet using a credit card or banking over the Internet; *Regular-use households that engaged either in window shopping or electronic commerce; **households where all members reported only to have browsed for goods or services using the Internet; ***households where at least one member was reported to have ordered and/or paid for goods or services using the Internet*
Source: Statistics Canada, November 2002

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G. Categories

Statistics Canada reports that more than one-quarter of Canadian households bought books, magazines or newspapers online in 2001, yet other categories such as clothing, housewares, automotive products and travel had higher percentages of shoppers (in other words, those who researched purchases online but may have made a purchase offline).

Items Purchased or Shopped for Online by Canadian Online Households*, 2001 (as a % of respondents)

	Buyers	Shoppers	Shoppers or buyers
Books, magazines and newspapers	28.1%	15.9%	24.8%
Travel arrangements	16.2%	16.3%	19.9%
Computer software	13.8%	10.7%	14.7%
Automotive products	2.6%	21.2%	18.5%
Music	11.8%	10.7%	13.8%
Clothing, jewelry and accessories	18.2%	25.6%	27.2%
Computer hardware	6.4%	12.2%	12.4%
Consumer electronics	6.7%	21.6%	19.9%
Other entertainment	10.6%	5.1%	9.5%
Housewares	5.6%	26.4%	23.5%
Other	14.8%	11.1%	16.2%
Videos, DVDs	5.0%	6.3%	7.5%
Hobbies	3.6%	2.2%	3.7%
Food	2.9%	2.5%	3.3%
Toys	6.1%	8.1%	9.1%
Real estate	0.4%	5.6%	4.8%
Health and beauty	5.1%	5.7%	7.0%
Flowers and gifts	4.8%	4.1%	5.6%
Sports equipment	5.5%	9.0%	9.7%

*Note: *members of households that shopped or bought online from any location*

Source: Statistics Canada, November 2002

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Taylor Nelson Sofres confirmed in June 2002 that books were the most popular purchase category for Canadian online shoppers. Books were the top category for shoppers worldwide in the global survey of 37 countries. PC software was the second most popular purchase category for Canadian shoppers, but only the seventh most popular worldwide.

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Online Purchases Made in Canada, by Category, 2002 (as a % of Internet users who have shopped online during the past month)

Books

24%

PC software

12%

Clothes

8%

PC hardware

8%

Electronics/electrical

6%

Music/CDs

6%

Tickets to theater/cinema

6%

Furniture/household

5%

Holidays/leisure

5%

Toiletries/cosmetics

5%

Groceries/food

5%

Toys/games

3%

Sports equipment

3%

Videos

3%

Travel (business only)

2%

Jewelry/fashion

1%

Car

1%

Other

24%

Source: Taylor Nelson Sofres (TNS), June 2002

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Travel was the hottest online B2C category in 2001 in terms of revenues, according to IDC Canada. Travel-related products generated approximately CAD1.5 billion in online sales in Canada in 2001, the number one item by dollar value. Computer hardware and consumer electronics generated approximately CAD\$950 million and CAD\$525 million respectively. Books were the most frequently purchased product by Canadians shopping online in 2001. Other products frequently purchased online included computer hardware, consumer electronics, music CDs and tapes, computer software and travel items.

B2C E-Commerce in Canada, by Category, 2001 (in billions of CAD)

Travel	\$1.50
Computer hardware	\$0.95
Consumer electronics	\$0.53

Source: International Data Corporation (IDC), July 2002

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In July 2002, IDC projected that travel-related products would reach nearly CAD11 billion by 2006 from CAD1.5 billion in 2001, a CAGR of 47.9%.

Online Travel Spending in Canada, 2001 & 2006 (in billions of CAD)

2001	\$1.5
2006	\$11.0

Note: CAGR=47.9%

Source: International Data Corporation (IDC), July 2002

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Canadians are continuing to earmark more of their holiday spending dollars to online purchases, according to a November 2002 study from Ipsos-Reid. 23% of Internet users planned to purchase a gift online during the holiday season, up slightly from the 21% who planned on purchasing online during the 2001 holiday season.

Canadian Internet Users* Planning to Purchase a Gift Online during the Holiday Season, 2001 & 2002 (as a % of respondents)

2001	21%
2002	23%

Note: *defined as a Canadian adult who spends at least one hour online per week

Source: Ipsos-Reid, November 2002

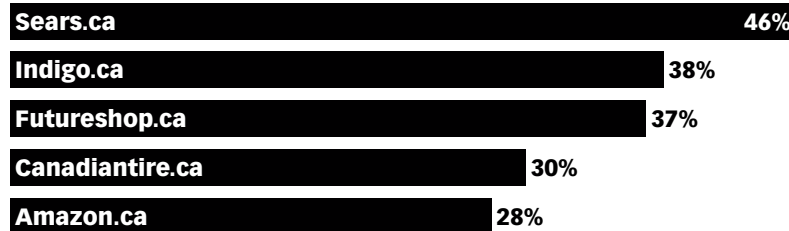
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A December 2002 holiday shopping study by NFO CFgroup identified the most popular online shopping categories for holiday purchases as books, toys, movies and videos, electronics, and apparel. The chart below shows which Web sites Canadians planned to purchase from during the 2002 holiday season. They reflect general merchandisers such as Sears and Amazon, a book and video retailer (Indigo), a computer retailer (Futureshop), and a home and garden retailer (Canadian Tire).

Most Popular Online Retailers in Canada, Holiday Season 2002 (as a % of shoppers who plan to purchase from that site)



Source: NFO CFgroup, December 2002

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A. E-Commerce Trade in the United States

In March 2003, the US Census Bureau published the results of four separate studies that measure e-commerce activity in the United States during 2001.

The four studies surveyed businesses in the manufacturing, wholesale, retail and services sectors of the US economy, finding that 18.3% of orders in the manufacturing sector were placed electronically in 2001, compared with 10.0% of orders in the merchant wholesale sector. By comparison, just 1.1% of retail sales were made online during 2001.

For the manufacturing and wholesale sectors, the US Census Bureau includes transactions conducted via electronic data interchange (EDI), extranets, the Internet, and e-mail as part of its definition of electronic commerce. For the retail sector, most electronic orders are placed via the Internet by consumers.

US E-Commerce Trade, by Economic Sector, 2001 (as a % of total trade)

Manufacturing shipments	18.3%
Merchant wholesale trade sales	10.0%
Retail trade sales	1.1%
Selected service revenues	0.8%

Source: US Census Bureau, March 2003

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It is important to note that because each of the four sector studies was conducted independently of the others, the US Census Bureau cautions that the cumulative results should not be used to provide a single estimate for the size of e-commerce within the entire US economy.

Breaking out the two surveys that cover business-to-business e-commerce, more than 50,000 manufacturers were surveyed as part of the Census Bureau's Annual Survey of Manufacturers, while more than 6,900 merchant wholesalers were surveyed for the wholesale sector's Annual Trade Survey.

In total, \$725.1 billion worth of goods in the US manufacturing sector were traded electronically in 2001, down slightly from the \$755.8 billion in goods that were traded electronically during 2000. As a percent of total industry trade, however, e-commerce activity increased from 18.0% of manufacturing sector trade in 2000 to 18.3% of sector trade in 2001.

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This drop in the dollar value of e-commerce activity can be explained by the broader decline in manufacturing sector activity, which fell by 5.7% in 2001. By comparison, the dollar value of e-commerce trade fell by a narrower 4.1%, indicating slight growth in the use of e-commerce networks, while overall economic activity in the sector contracted.

US E-Commerce Trade (Including EDI) in the Manufacturing Sector, 1999-2001 (in billions)

1999	\$729.56
2000	\$755.81
2001	\$725.15

Source: US Census Bureau, March 2003

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By contrast, although overall economic activity in the merchant wholesale sector fell by 1.3%, from \$2.74 trillion in 2000 to \$2.70 trillion in 2001, e-commerce trade grew by 12.1%, to reach \$270.25 billion in 2001.

As a percent of wholesale trade, e-commerce activity increased from 8.8% of total trade in 2000 to 10.0% of sector trade in 2001.

US E-Commerce Trade (Including EDI) in the Merchant Wholesale Sector, 1999-2001 (in billions)

1999	\$182.51
2000	\$241.17
2001	\$270.25

Source: US Census Bureau, March 2003

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Among the most comprehensive studies of business-to-business e-commerce activity, the World Information Technology and Services Alliance (WITSA), in partnership with IDC, has broken down historical e-commerce trade by country as part of its bi-annual *Digital Planet* report.

Using a narrower definition than the US Census Bureau, WITSA defines e-commerce as "Internet-based business-to-business spending." WITSA estimates that business-to-business e-commerce in North America climbed to \$227.2 billion in 2001, up 77.5% from the \$128.0 billion in online trade that occurred during 2000.

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Internet-based trade between businesses in the United States totaled \$206.89 billion in 2001, according to WITSA, up from \$116.75 billion in 2000.

B2B E-Commerce in North America, by Country, 1999-2001 (in billions)

	1999	2000	2001
Canada	\$6.65	\$11.27	\$20.28
US	\$54.22	\$116.75	\$206.89

Source: World Information Technology and Services Alliance (WITSA), International Data Corporation, February 2002

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Using the US Census Bureau's figures as a benchmark to forecast e-commerce activity across 15 separate industries, eMarketer estimates that business-to-business e-commerce in the United States totaled \$306.12 billion in 2001. By the end of 2003, eMarketer forecasts that business-to-business e-commerce will reach \$720.97 billion.

Note that eMarketer does not include traditional EDI in our definition of e-commerce, although we do include Internet EDI. Our forecast model counts both manufacturing and wholesale sector transactions, in addition to sales of natural resources and agricultural products that lie outside of the manufacturing and wholesale sectors.

US B2B E-Commerce Revenues, 2001-2005 (in billions)

2001	\$306.12
2002	\$481.98
2003	\$720.97
2004	\$1,011.17
2005	\$1,333.02

Source: eMarketer, February 2002

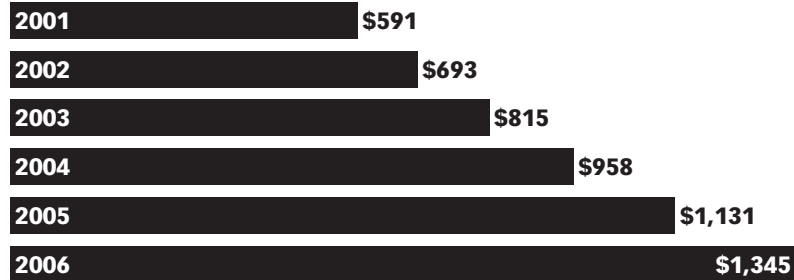
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A comparative estimate by research firm INPUT puts US business-to-business e-commerce at \$591 billion in 2001, and forecasts that online trade between businesses in the United States will increase to \$815 billion by the end of 2003. INPUT includes the Internet-based trade of goods and services in its definition of business-to-business e-commerce, with the exception of financial transactions, such as bank transfers.

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



Source: INPUT, January 2002

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Taken together, several of the older comparative estimates for US business-to-business e-commerce initially projected a range of between \$1.01 trillion and \$4.28 trillion in Internet-based trade between businesses by the end of 2004.

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It is important to note, however, that definitional differences and variations in individual research firms' economic forecasts account for the discrepancies between these estimates. While they remain of interest as part of the record of past forecasting, most forecasts that were issued prior to 2002 should by now be considered to be out of date.

Comparative Estimates: US B2B E-Commerce Revenues, 2004 (in billions)

AMR Research*, 2001

\$4,287

Forrester Research, November 2001

\$3,629

Accenture, August 2001

\$2,500

Goldman Sachs & Co., May 2000

\$1,593

eMarketer, February 2002

\$1,011

International Data Corporation (IDC), April 2001

\$1,010

*Note: *for North America*

Source: eMarketer, February 2002; various as noted, 2000-2002

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As the US Census Bureau has found in its Annual Survey of Manufacturers, e-commerce activity is highly concentrated in the manufacturing sector, with almost 68% of all e-commerce shipments occurring in five industry groups – transportation equipment, computer and electronic products, chemicals, food products and the beverage & tobacco industry.

US E-Commerce Trade (Including EDI) in the Manufacturing Sector, 1999-2001 (in billions)

	1999	2000	2001
Transportation equipment	\$268.67	\$281.40	\$264.37
Computer and electronic products	\$65.34	\$77.93	\$73.23
Chemicals	\$58.83	\$52.97	\$54.52
Food products	\$45.76	\$54.84	\$53.56
Beverage and tobacco	\$35.14	\$42.86	\$45.67
Machinery	\$48.45	\$40.44	\$35.80
Electrical equipment, appliances and components	\$27.07	\$30.00	\$28.02
Plastics and rubber products	\$27.80	\$28.40	\$27.41
Fabricated metal products	\$29.51	\$25.80	\$24.17
Paper	\$15.31	\$20.62	\$20.21
Petroleum and coal products	\$19.88	\$16.65	\$16.31
Miscellaneous	\$13.73	\$14.80	\$15.64
Primary metals	\$15.47	\$15.40	\$14.27
Apparel	\$16.49	\$12.06	\$10.65
Furniture and related products	\$7.62	\$8.40	\$9.35
Nonmetallic mineral products	\$7.28	\$8.17	\$7.90
Textile product mills	\$7.28	\$5.80	\$7.41
Printing and related support activities	\$7.32	\$5.97	\$5.89
Wood products	\$4.28	\$5.96	\$4.92
Textile mills	\$6.02	\$5.21	\$4.44
Leather and allied products	\$2.34	\$2.12	\$1.44
Total	\$729.56	\$755.81	\$725.15

Source: US Census Bureau, March 2003

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Electronic commerce in the merchant wholesale sector is even more concentrated than it is in the manufacturing sector, with the top five verticals accounting for 79.5% of wholesale sector e-commerce activity during 2001.

In contrast to the manufacturing sector survey, the wholesale survey was able to break out EDI use as a percentage of total e-commerce trade. Not surprisingly, EDI still accounted for a substantial 86.0% of e-commerce activity in 2001, down slightly from an 86.7% share in 2000.

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It is eMarketer's view, however, that the migration toward the use of Internet-EDI has only begun to gather momentum in late 2001, and will be reflected in the US Census Bureau's 2002 e-commerce figures. Furthermore, in early 2003, eMarketer has found that leading industry-backed business-to-business exchanges have just started to see an increase in the number of their members using their integrated e-commerce solutions.

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

US E-Commerce Trade (Including EDI) in the Merchant Wholesale Sector, 1999-2001 (in billions)

	1999	2000	2001
Drugs and druggists' sundries	\$52.20	\$77.79	\$96.75
Motor vehicles, parts and supplies	\$37.05	\$40.13	\$44.12
Professional and commercial equipment	\$23.99	\$30.00	\$30.90
Computer equipment and supplies	\$16.37	\$30.83	\$15.78
Electrical goods	\$8.83	\$11.09	\$12.34
Groceries and related products	\$4.86	\$11.44	\$12.10
Apparel, piece goods and notions	\$7.12	\$10.28	\$11.84
Machinery, equipment and supplies	\$7.11	\$7.59	\$7.95
Hardware, plumbing and heating equipment	\$5.90	\$5.98	\$6.49
Furniture and home furnishings	\$2.58	\$2.83	\$3.91
Paper and paper products	\$2.36	\$3.47	\$3.71
Farm-products raw materials	\$3.20	\$3.23	\$3.36
Lumber and other construction material	\$1.97	\$2.19	\$2.24
Total*	\$173.53	\$236.84	\$251.49

*Note: *excludes select industries for which information has been withheld*
Source: US Census Bureau, March 2003

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As a share of total trade within each vertical industry, the transportation equipment industry led all other manufacturing sector verticals with 43.9% of its trade being conducted electronically. The beverage and tobacco industry, followed by the electrical equipment industry followed with 38.4% and 24.6% of their trade being conducted via electronic networks, respectively.

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Outside of the top 10 manufacturing verticals, the wood products and printing industries were the least networked, with each channeling just 5.6% and 5.8% of all orders through electronic networks. The petroleum and coal industry was third from the bottom, with 7.4% of its trade being conducted electronically.

Top 10 US Manufacturing Industries' E-Commerce Activity, 2001 (as a % of total industry trade)

Transportation equipment

43.9%

Beverage and tobacco

38.4%

Electrical equipment, appliances and components

24.6%

Textile product mills

23.2%

Apparel

19.5%

Computer and electronic products

17.1%

Leather and allied products

16.3%

Plastics and rubber products

16.1%

Machinery

13.4%

Paper

13.0%

Source: US Census Bureau, March 2003

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In eMarketer's breakdown of business-to-business e-commerce by industry, we have included both manufacturing and wholesale sector trade within each of our vertical market forecasts. Using US Census Bureau survey data from the 2000 Computer Network Use Supplement to the Annual Survey of Manufacturers, eMarketer has estimated the percent of Internet-based e-commerce activity in each of 15 separate industries.

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According to our forecasts, the automotive, aerospace and healthcare / pharmaceutical industries will lead all other verticals in their adoption of Internet-based trade by 2005. Laggards include the construction and food & beverage industries, which will exchange just over 4% of their goods online in three years' time.

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%
Total	\$306.12	\$481.97	\$720.97	\$1,011.18	\$1,333.02	9.2%

Source: eMarketer, 2002

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It is worthwhile to note that eMarketer's underlying economic model for our current forecast is based upon the 1997 US Economic Census. As soon as data from the 2002 US Economic Census is released in early 2004, we expect to adjust our economic forecast and incorporate the latest e-commerce data into a revised business-to-business e-commerce forecast by mid-2004.

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B. Business Use of the Internet

The US Census Bureau estimates that there were 9.3 million businesses in the United States in 2000 – a substantial increase over the 5.6 million businesses that it counted in 1999.

The year 2000 was, of course, the peak of the dot-com boom, during which thousands of small businesses were being opened, from B2B exchanges to Internet service providers, software providers and technology consultancies.

Indeed, the largest growth in 2000 occurred in the number of small businesses with 10 to 100 employees, which leapt from 1.1 million firms in 1999 to 5.5 million firms one year later. The number of small office/home office businesses fell from 4.4 million in 1999 to 3.6 million in 2000, indicating that several companies managed to expand in size.

Number of US Businesses and Business Establishments, by Size of Business, 2000

	Firms	Establishments
Small office/home office (1-9 employees)	3,691,080	3,711,344
Small businesses (10-100 employees)	5,551,710	6,420,399
Medium-size businesses (100-499 employees)	84,385	312,112
Large businesses (500+ employees)	17,153	989,998
Total	9,344,328	11,433,853

Source: US Census Bureau, 2003

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The US Census Bureau also found that the number of medium size businesses increased from 81,347 companies in 1999 to 84,385 firms in 2000. Similarly, the number of large companies with more than 500 employees grew from 16,740 in 1999 to 17,153 in 2000.

As a means of gauging large and mid-sized US companies' progress with the adoption of e-business solutions and their use of Internet-based procurement, Forrester Research in partnership with the Institute for Supply Management (ISM) has been conducting quarterly surveys of US purchasing executives since the fourth quarter of 2000.

To date, the surveys show that more than 85% of US companies have done at least some form of purchasing online, be it for indirect materials such as office supplies, or direct materials such as chemicals or metal products that are used as inputs for manufactured goods. However, the Forrester/ISM study has also shown that despite the widespread experimentation with Internet-based purchasing, very few businesses have channeled more than 10% of their buying activity online.

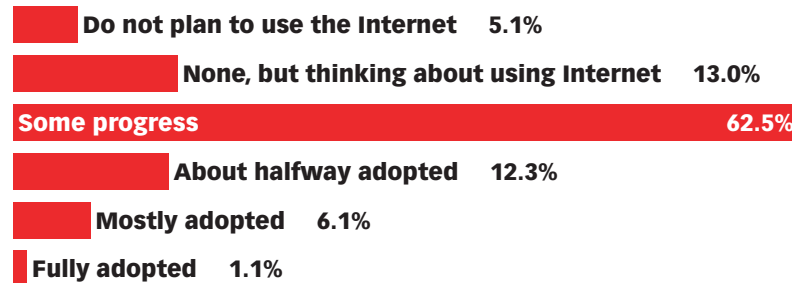
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This may be explained in part by the necessary back-end integration work that many companies must complete, prior to being able to significantly expand their external e-business trading activity. Although several companies were quick to adopt e-procurement systems for indirect materials purchasing, many have seen slower progress in the adoption and integration of more complex supply chain management systems, for example.

Industry groups and individual businesses have also needed time to work out data standards, so that companies may easily exchange information with one another via the Internet. Furthermore, although several enterprises have started by integrating online trading capabilities with their largest trading partners, many smaller companies remain unprepared to trade online, although this situation is slowly improving.

The best way to describe the current situation is to say that progress toward fully integrated business-to-business e-commerce has been slower than originally anticipated, although it continues to steadily move forward. This is confirmed by the Forrester/ISM survey that was taken in December 2002, which found that although 75% of respondents were no more than halfway through their implementations of Internet-based purchasing systems, while only 5% of respondents said that they had no intention of using the Internet for procurement.

Amount of Progress that US Companies Have Made Toward Fully Adopting the Internet for Purchasing Activities, Q4 2002 (as a % of respondents)



Note: n=294

Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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Quarterly survey data from 2001 and 2002 show that the percent of US businesses using the Internet to purchase indirect goods or services has seen steady growth, increasing to more than 85% of respondents by the end of 2002.

Percent of US Companies Buying Indirect Goods/Services via the Internet, by Quarter, 2001

Q1 2001	70.9%
Q2 2001	72.7%
Q3 2001	75.3%
Q4 2001	77.5%

Source: Institute for Supply Management, Forrester Research, 2001 & 2002

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Percent of US Companies Buying Indirect Goods/Services via the Internet, by Quarter, 2002

Q1 2002	78.1%
Q2 2002	84.2%
Q3 2002	81.9%
Q4 2002	85.3%

Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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However, US companies' indirect e-procurement as a percent of their total indirect spending has largely stayed within the 9.0% to 10.5% range during the past two years, with online spending showing a decline as the US economy fell into recession.

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This relatively small portion of total indirect spending being channeled online has been attributed in part to integration issues, as well as to complaints about supplier readiness. Integration has been especially difficult for small and medium companies, although it is worth noting that even the most advanced technology users are taking more than one year to roll out new e-procurement systems to hundreds of users company-wide.

Average Amount of Indirect Goods/Services Purchasing Done via the Internet, by Quarter, 2001 (as a % of total company purchasing)



Source: Institute for Supply Management, Forrester Research, 2001 & 2002

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Average Amount of Indirect Goods/Services Purchasing Done via the Internet, by Quarter, 2002 (as a % of total company purchasing)



Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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Because the procurement of direct materials is more complex and strategically important than the purchase of indirect materials, it is not surprising that there are fewer companies that have begun to channel a significant portion of their direct materials purchasing online.

Many businesses have also needed time to develop technical standards with their trading partners, prior to expanding or even initiating pilot projects designed to facilitate online trade.

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Nonetheless, Forrester and the ISM have found that just over 70% of US companies have at least experimented with some form of purchasing direct materials online as of the fourth quarter of 2002.

Percent of US Companies Buying Direct Goods/Services via the Internet, by Quarter, 2001



Source: Forrester Research, Institute for Supply Management (ISM), 2001 & 2002

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Percent of US Companies Buying Direct Goods/Services via the Internet, by Quarter, 2002



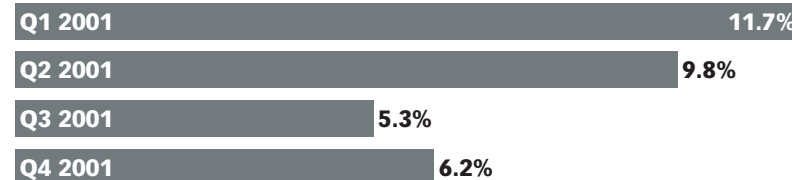
Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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As a percent of total direct materials spending, the Forrester/ISM study has found that US companies have directed less than 7.0% of their total spending online during the toughest quarters of the recent recession, while at their peak, online buyers channeled as much as 11.7% of their spending on direct goods through the Internet. As of the fourth quarter of 2002, Internet-based procurement has rebounded to an average 9.4% of US companies' total direct goods spending.

Average Amount of Direct Goods/Services Purchasing Done via the Internet, by Quarter, 2001 (as a % of total company purchasing)



Source: Forrester Research, Institute for Supply Management (ISM), 2001 & 2002

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Average Amount of Direct Goods/Services Purchasing Done via the Internet, by Quarter, 2002 (as a % of total company purchasing)



Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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It is important to note that much of this online procurement of direct goods has been through the use of eRFPs / eRFQs, or one-time online auction events.

Although such activity confirms businesses' willingness to experiment with the use of the Internet as a purchasing channel, this kind of online procurement requires a much smaller commitment than the truly integrated and more collaborative forms of Internet-based purchasing that comes through the use of supply chain management or CPFR systems.

The Forrester/ISM data indicate that during 2002, the number of US companies using online RFP and supply chain tools has trended higher, while online marketplace use has remained rather stagnant at just under one-third of businesses. Online auction activity, on the other hand, has been somewhat erratic as businesses use Internet auctions for one-time purchase events, after which contracts are often fulfilled through other channels over the course of a specified period.

US Companies that Have Used the Internet As Part of an RFP Process, by Quarter, 2002 (as a % of respondents)



Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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According to Forrester's index of corporate buyers' future interest in using each of these online purchasing solutions, US companies are rather lukewarm about the prospects for online auctions and exchanges. However, interest in the use of online RFQs and supply chain tools appears to have strengthened as of the fourth quarter of 2002.

US Companies that Have Purchased Goods/Services via an Electronic Marketplace or Private Hub, by Quarter, 2002 (as a % of respondents)

Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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US Companies that Have Purchased Goods/Services via an Internet Auction, by Quarter, 2002 (as a % of respondents)

Source: Forrester Research, Institute for Supply Management (ISM), January 2003

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As confirmation of Forrester's findings that show a stable interest in online procurement, *Purchasing* magazine discovered in a mid-2002 survey of US purchasing professionals that most companies have not significantly changed their use of various electronic sourcing tools over the past two years.

Although as many as two-thirds of respondents to the *Purchasing* survey are continuing to make online purchases with "easy-to-use" e-sourcing tools such as supplier directories and supplier-hosted storefronts, less than 25% of companies are using more complex solutions such as e-commerce enabled extranets to interact with their suppliers.

Once again, however, it is worthwhile to note that this apparent lack of progress is less an indication that businesses have rejected e-commerce, but rather a confirmation that more robust e-business integration requires considerable time and effort.

US Purchasing Professionals' Use of Electronic Sourcing Tools, by Channel, 2000 & 2002 (as a % of respondents)

	2000	2002
Supplier directories/databases	73%	74%
Tools for supply base/strategic sourcing research	66%	60%
Supplier-hosted web storefronts	56%	57%
EDI	32%	38%
E-RFQs	30%	34%
Commerce-enabled extranets with select suppliers	25%	23%
E-Collaboration with suppliers	10%	21%
E-Auctions (reverse, buyer controls)	6%	15%
E-Auctions (real time)	9%	11%
E-Auctions (forward, seller controls)	6%	8%
E-Auctions (not real time)	4%	6%
E-Matching (Nasdaq style)	4%	8%
Demand aggregation with other companies	6%	9%

Source: *Purchasing Magazine*, June 2002

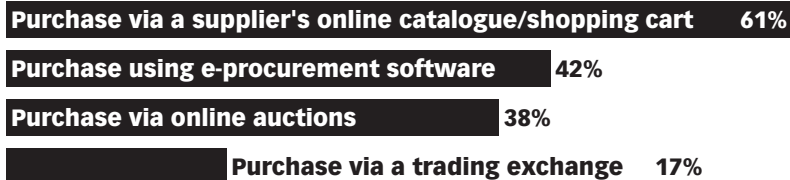
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Another study that was conducted by Benchmark Research on behalf of Commerce One found that 61% of US-based Commerce One customers were regularly making purchases from suppliers' online catalogs. A further 42% of respondents said that they were using e-procurement software to make online purchases, while 38% said they were using online auctions.

Use of E-Procurement Solutions by Enterprises in the US, by Channel, 2002 (as a % of respondents)



Note: n=50 US enterprises with 5,000+ employees
Source: Benchmark Research Ltd. for Commerce One, July 2002

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However, even among this sample group of relatively advanced technology users, just 12% of companies' total purchasing activity was channeled online, according to the Benchmark/Commerce One survey.

On average, 9% of these large enterprises' employees have the ability to request a purchase online.

Extent of US Enterprises' Use of E-Procurement Solutions, 2002

Average percent of all purchasing conducted online



Average percent of employees who can request a purchase online



Note: n=50 US enterprises with 5,000+ employees
Source: Benchmark Research Ltd. for Commerce One, July 2002

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As for US companies' degree of integration between their e-procurement and core business systems, just 24% of Commerce One users said that they had integrated their e-procurement solutions with their ERP or SCM systems.

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External integration with suppliers was in fact more common, with 40% of respondents confirming that they are able to receive automated price updates from suppliers that go into a vendor database. About one-third of companies had integrated their e-procurement systems with a central database of supplier information.

Integration Level of US Enterprises' E-Procurement Solutions, 2002 (as a % of respondents)

E-procurement solution provides an automated format for internal customers to submit requests for purchases

49%

E-procurement solution receives regular price update information from suppliers to update vendor database

40%

E-procurement technology is linked to extensive central database of supplier information

34%

E-procurement solution issues tenders to suppliers electronically and receives bids back in standard format

30%

E-procurement system is integrated with ERP/SCM

24%

Note: n=50 US enterprises with 5,000+ employees

Source: Benchmark Research Ltd. for Commerce One, July 2002

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Turning to small businesses' use of Internet solutions, researchers at CRN found in October 2002 that small businesses in the United States ranked security and application/database development projects as leading priorities for the coming year, while supply chain management solutions ranked fifth among respondents' upcoming projects.

Leading Internet-Related Spending Priorities among US Small Businesses, 2002 (ranked on a scale of 1 to 5*)

Security	3.61
Application/database development	3.17
Intranet development	3.14
Wireless	3.03
Supply chain management	3.02

*Note: *1=low priority, 5=top priority*

Source: CRN, October 2002

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Dun & Bradstreet has found that increasing numbers of small businesses with less than 25 employees are making online purchases, rising from 37% of respondents to its survey in 2000 to 55% in 2002.

A significant 30% of small firms said that they were selling goods or services online in 2002 as well, while 34% of respondents said that they were going online to find new customers or markets.

Not surprisingly, Internet telephony and video conferencing had not yet caught on among small companies, as these technologies are still in the early stages of their adoption.

US Small Business* Use of the Internet, 2000-2002 (as a % of respondents)

	2000	2001	2002
E-Mail	66%	74%	79%
Business purchases	37%	44%	55%
Personal purchases	30%	31%	36%
Business research	54%	69%	67%
Personal research	50%	47%	55%
Find new customers and markets	23%	28%	34%
Sell goods and services	n/a	27%	30%
Phone calls (voice over IP)	7%	5%	4%
Video conferencing	1%	4%	5%

Note: n=411; *Small business defined as 25 or fewer employees

Source: Dun & Bradstreet, August 2002

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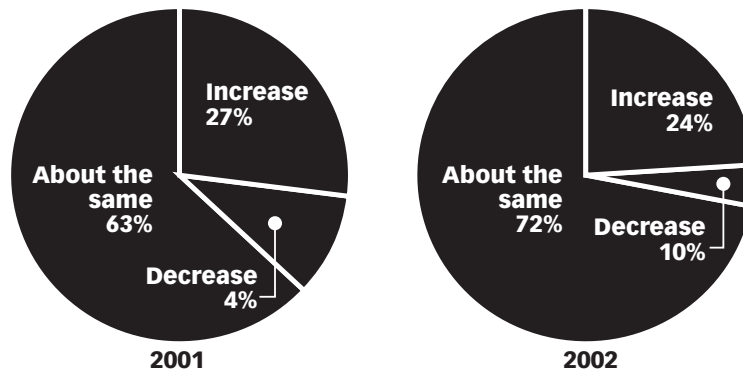
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Just over half of the small businesses surveyed by Dun & Bradstreet, at 57% of respondents, said that they expected they would increase their Internet use over the coming year. A further 42% said that it would stay the same, while just 1% of small companies said that they it would decline.

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As for spending on their company Web sites, nearly three-quarters of respondents said that it would remain steady in 2002. Fewer small businesses planned to decrease spending in 2002, compared with the year before.

US Small Businesses'* Planned Spending on Their Companies' Web Site, 2001 & 2002 (as a % of respondents)



Note: n=223; *Small business defined as 25 or fewer employees
Source: Dun & Bradstreet, August 2002

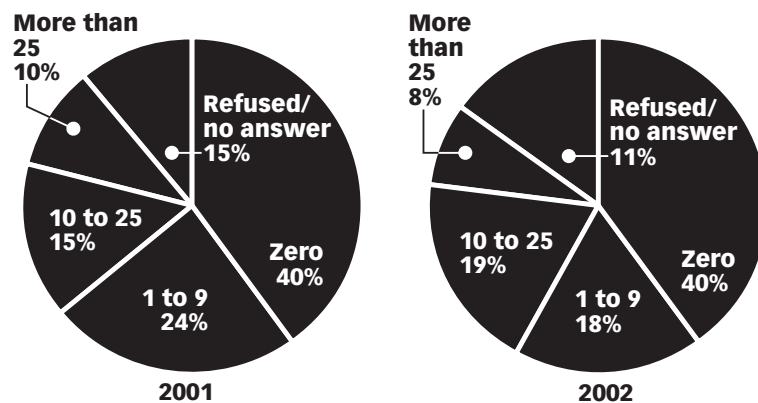
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Of those small businesses that have their own Web sites, 40% did not receive orders online, while 37% of respondents that do sell online received less than 25 orders per month.

Compared with results from 2001, fewer companies indicated that they received more than 25 online orders per month, while a larger number of respondents preferred not to give an answer, or were not sure of how many transactions were processed each month.

Number of Monthly Online Orders Received by US Small Businesses*, 2001 & 2002 (as a % of respondents)



Note: n=223; *Small business defined as 25 or fewer employees
Source: Dun & Bradstreet, August 2002

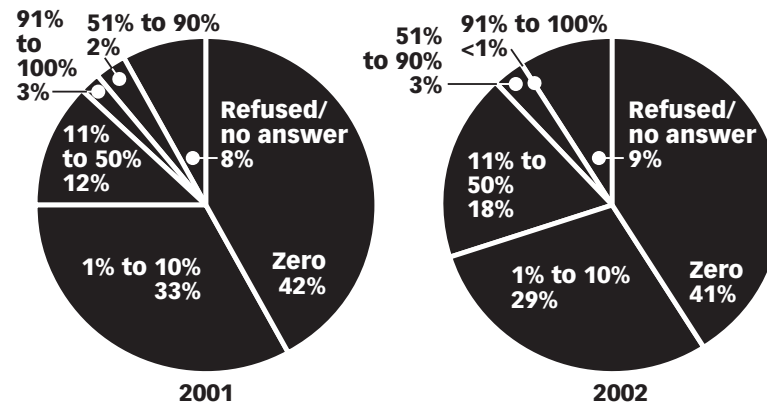
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As a portion of their total annual sales during 2001, 29% of respondents said that less than 10% of sales were transacted via the Internet. A handful of companies were generating more than 10% of sales online however, with 21% of the small businesses surveyed by Dun & Bradstreet indicating that as much as 90% of their sales were being made via the Internet.

Percent of US Small Businesses'* Sales Transacted via the Internet, 2001 & 2002



Note: n=223; *Small business defined as 25 or fewer employees
Source: Dun & Bradstreet, August 2002

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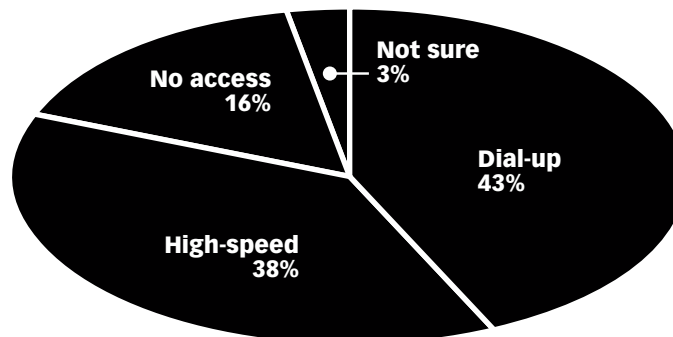
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Broadband Internet Access

For many Internet service providers in the United States, the small business market has seen healthy growth over the past two to three years, as several companies have decided to upgrade their Internet access from dial-up connections to broadband.

During the early months of 2002, KRC Research found that among companies with less than 50 employees, 43% of small businesses still accessed the Internet via a dial-up connection, while 38% of small businesses had high speed Internet access.

Internet Access Method Used by US Small Businesses, 2002 (as a % of respondents)



Note: n=250 businesses with 50 or less employees
Source: KRC Research for Women Impacting Public Policy, May 2002

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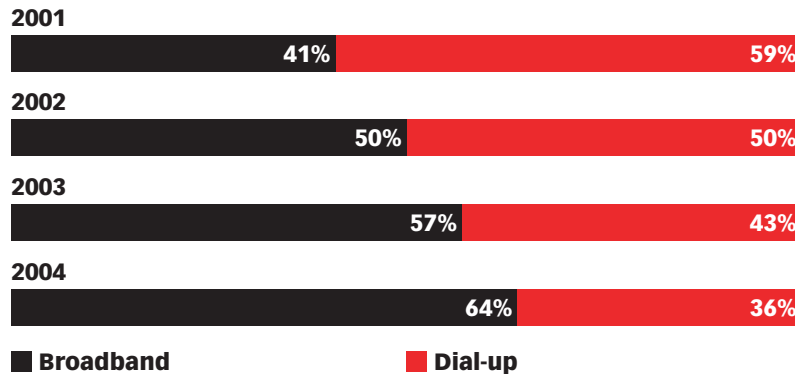
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According to research conducted by the Yankee Group, small business adoption of broadband Internet connections is continuing to proceed through 2003, with broadband penetration reaching more than three-quarters of small and medium-sized businesses.

Very small businesses with less than 20 employees are still the most likely companies to be using dial-up Internet connections, however, although the Yankee Group predicts that 57% of such businesses will be using a broadband connection by the end of 2003.

Percent of US Very Small Businesses Using Broadband, 2001-2004



Note: 2-19 employees

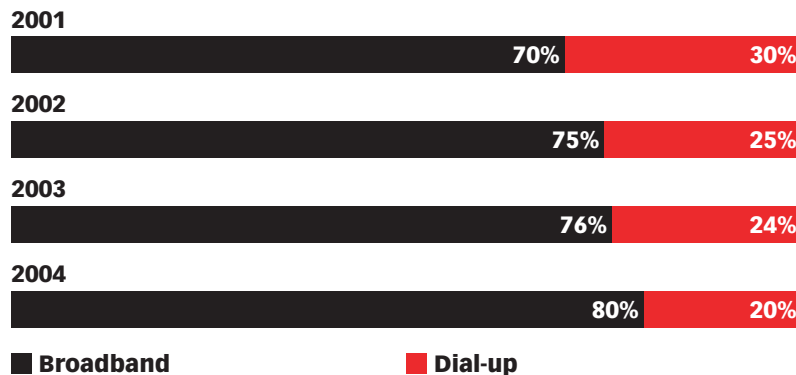
Source: Yankee Group, July 2002

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The broadband penetration rate among businesses with 20 to 99 employees has already passed the 75% mark in 2002, with very slight growth expected for 2003.

Percent of US Small Businesses Using Broadband, 2001-2004



Note: 20-99 employees

Source: Yankee Group, July 2002

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Similarly, the Yankee Group has found that the majority of medium-size businesses with 100 to 499 employees had already made the transition to broadband connections by 2001, leaving very little room for growth over the past two years.

Nonetheless, 87% of medium size businesses are expected to have a broadband Internet connection by the end of 2003.

Percent of US Medium-Size Businesses Using Broadband, 2001-2004



Note: 100-499 employees

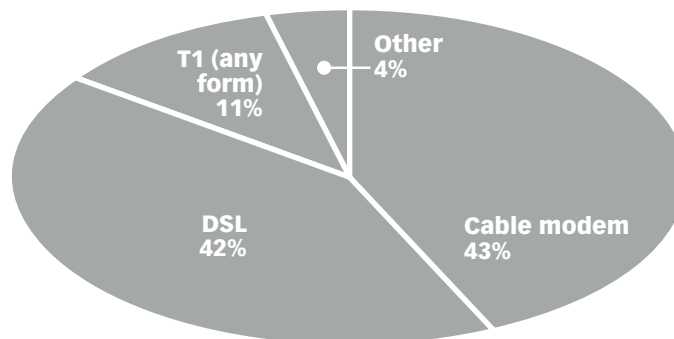
Source: Yankee Group, July 2002

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In a more recent survey of US small businesses, the Yankee Group found that a substantial 43% of very small businesses access the Internet via a cable modem, indicating that many of these companies are home-based businesses. Just 11% of the very small businesses that were surveyed used a T1 connection.

Primary Internet Access Method Used by Very Small Businesses* in the US, 2002 (as a % of respondents)



Note: *1 to 19 employees

Source: Yankee Group, January 2003

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By contrast, Dun & Bradstreet has found that among US-based small businesses with less than 20 employees, 19% are using a DSL connection to access the Internet, compared with 11% that are using a cable modem.

Since 2001, the percentage of small office/home office (SOHO) businesses that rely upon a telephone modem has fallen from 57% of companies to 51%.

Primary Means of Internet Access Used by US Small Businesses*, 2001 & 2002 (as a % of respondents)

Telephone modems



DSL lines



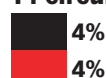
Cable modems



LAN's



T1 circuits



ISDN lines



Don't know/not sure



■ 2001

■ 2002

Note: n=411; *Small business defined as 25 or fewer employees

Source: Dun & Bradstreet, August 2002

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"Small and SOHO businesses are expected to be the most promising opportunities for DSL and cable modem service providers now and in the future."

– Colin Nelson, In-Stat/MDR

Research firm In-Stat/MDR estimates that there were 4.8 million business subscribers to DSL or cable modem Internet access at the end of 2002, accounting for 95% of all business broadband subscriptions. Looking ahead to 2006, In-Stat/MDR projects that there will be more than 15 million businesses subscribing to either DSL or cable access.

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As for the most popular uses of DSL Internet access among small businesses, the Yankee Group and SBC Communications found that most companies went online to conduct research or purchase office supplies via the Internet.

A significant 83% of the small businesses surveyed said that they used their DSL connections to send or receive e-mails with large attachments as well.

Uses of DSL Internet Access among US Small Businesses, 2002 (as a % of respondents)

Conduct online research	88%
Send and receive e-mail with large attachments	83%
Purchase supplies online	78%
Book travel reservations	69%

Source: Yankee Group, SBC, May 2002

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For further information about major trends in broadband, please see eMarketer's April 2003 Broadband Worldwide report at http://www.emarketer.com/products/report.php?broad_world_apr03.

Employee Internet Access

According to the Bureau of Labor Statistics, the US Department of Labor has counted 135.1 million people in the US workforce in 2001.

eMarketer estimates that 58.0 million people, or 42.9% of all US workers, had some kind of access to the Internet at their workplace by 2002, with 50.1 million of those at-work users accessing the Internet on a regular basis each month.

US Internet Users at Work, 2002 (in millions and as a % of the total workforce)

Total US workforce*	135.1
Total with access to the Internet at work	58.0 (42.9%)
Total getting online at work on a regular, monthly basis	50.1 (37.0%)

Note: *data is from the US Department of Labor Bureau of Labor Statistics and covers September 2001

Source: eMarketer, January 2003

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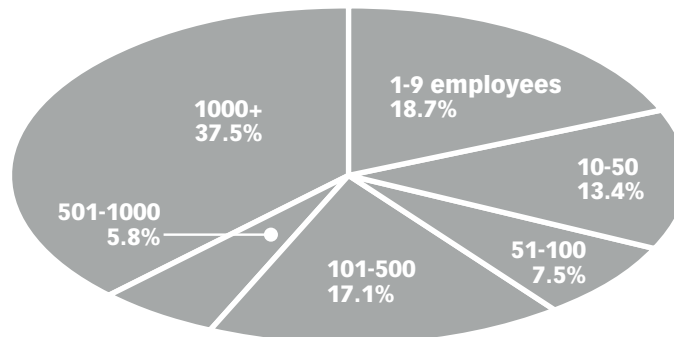
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When workplace Internet use is broken down by business size, comScore Networks has found that the largest percentage of people with at-work Internet access work for large enterprises with more than 1,000+ employees. Small office/home office companies comprise the next largest group, accounting for 18.7% of US at-work Internet users.

US Internet Users at Work, by Business Size, 2002 (as a % of total)



Source: comScore Networks Inc./Opinion Research Corporation, 2002

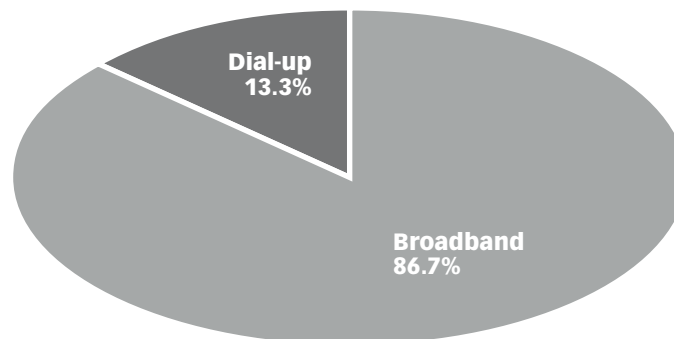
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With broadband Internet access reaching more than 85% of medium and large businesses in the United States, it should come as little surprise that 86.7% of at-work Internet users access the Internet via a broadband connection.

The remaining 13.3% of Internet users were relying upon a dial-up connection as of late 2002, according to comScore Media Metrix.

US Internet Users at Work, by Connection Type, November 2002



Source: comScore Media Metrix, December 2002

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Not surprisingly, Mediamark Research has found that people in the service industry are most likely to have at-work access to the Internet, followed by those in general management positions.

At-work Internet access is also common among people who work in sales, and among people in the information-intensive financial services and banking industries.

US Internet Users at Home and at Work, by Job Function, 2002

	Account- ing	Ban- king	Engi- neering/ design/ research	Fi- nance	General manage- ment	Inter- national
Total adults	9.1%	7.3%	6.5%	7.1%	14.0%	1.0%
Have home internet access	12.5%	9.7%	9.5%	9.9%	19.7%	1.6%
Have work internet access	18.6%	12.9%	16.0%	15.8%	29.0%	2.7%
	MIS/ EDP	Manu- facturing	Market- ing	Medical	Sales	Service
Total adults	1.5%	4.2%	7.3%	5.2%	13.1%	38.9%
Have home internet access	2.5%	4.8%	10.6%	6.6%	17.0%	44.6%
Have work internet access	4.4%	6.1%	15.8%	9.0%	21.9%	56.6%

Source: Mediamark Research Inc. (MRI), May 2002

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Interestingly, most business decision makers typically access the Internet to read general news and information about current events, ahead of using it for industry- or work-specific tasks.

Nielsen//NetRatings found that 44% of respondents to its survey did use the Internet to research business-related purchases, while 33% said that they made online purchases.

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A significant 30% of respondents also said that they accessed the Internet to research information about their competitors.

Online Activities at Work of US "Business Decision Makers", 2002 (as a % of respondents)

Reading general news/current events

92%

Reading financial news/stock listings

45%

Researching possible business related purchases

44%

Purchasing business related products and services

33%

Researching competitive companies

30%

Other

25%

None of the above

2%

Source: Nielsen//NetRatings @Plan, MORI Research and washingtonpost.com, September 2002

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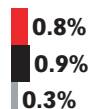
When it comes to gauging the effects of Internet access on employee productivity, the UCLA Center for Communication Policy has found that in 2002, 64.5% of workers claimed that at-work Internet access made them at least somewhat more productive, while another 30.6% of respondents indicated that the Internet had had little impact on their productivity either way.

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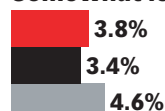
Just under 5% of workers said that the Internet had led to their becoming less productive.

Effect of Internet Access on the Productivity of US Internet Users at Work, 2000-2002 (as a % of respondents)

Much less productive



Somewhat less productive



Neither more nor less productive



Somewhat more productive



Much more productive



■ 2000 ■ 2001 ■ 2002

Source: UCLA Center for Communication Policy, February 2003

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For further information about at-work Internet users, please see eMarketer's February 2003 Online At-Work Audience report at http://www.emarketer.com/products/report.php?atwork_feb03&aff=wsj

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A. E-Commerce Trade in Canada

In April 2003, Statistics Canada released data from its most recent *Survey of Electronic Commerce and Technology*, finding that Canadian public and private sector organizations sold CAD \$13.66 billion worth of goods and services via the Internet in 2002, an increase of 27.2% over online sales of CAD \$10.74 billion in 2001.

Statistics Canada includes both business-to-consumer and business-to-business sales in its definition of e-commerce, although it uses a narrow definition of e-commerce that excludes transactions conducted via proprietary EDI networks. Online sales via extranets or Internet-EDI are included, however.

E-Commerce Trade in Canada, 2001 & 2002 (in billions of CAD)

2001	\$10.74
2002	\$13.66

Source: Statistics Canada, April 2003

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As a percent of commercial sales, Internet-based sales accounted for 0.6% of total private sector economic activity in 2002, up from 0.5% in 2001 and just 0.2% of total sales in 1999.

The wholesale sector accounted for the largest portion of Internet-based trade at CAD \$3.69 billion. It was followed by the manufacturing sector at CAD \$1.96 billion and the transportation and warehousing sector at CAD \$1.92 billion.

Online retail sales, the business-to-consumer component of Statistics Canada's e-commerce figures, totaled CAD \$1.72 billion in 2002, up from CAD \$1.48 billion in 2001.

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Canadian Enterprises' E-Commerce Sales, by Industry, 2001 & 2002 (in millions of CAD and as a % of total operating revenues)

	2001 e-com- merce	% of total operating revenues	2002 e-com- merce	% of total operating revenues
Forestry, logging and support activities	*	*	*	*
Mining and oil and gas extraction	*	*	\$19.7	0.0%
Utilities	*	*	*	*
Construction	*	*	*	*
Manufacturing	\$1,680.3	0.3%	\$1,956.7	0.3%
Wholesale trade	\$1,914.7	0.6%	\$3,693.4	1.1%
Retail trade	\$1,485.1	0.6%	\$1,718.1	0.5%
Transportation and warehousing	\$937.4	1.4%	\$19213.5	2.4%
Information and cultural industries	\$388.5	0.6%	\$828.5	1.2%
Finance and insurance	\$623.7	0.3%	\$851.5	0.4%
Real estate and rental and leasing	N/A	N/A	\$90.8	0.2%
Professional, scientific and technical services	\$423.5	0.7%	\$983.0	1.4%
Management of companies and enterprises	*	*	\$152.5	0.6%
Administration and support, waste management and remediation services	*	*	\$505.9	1.0%
Educational services (private sector)	\$80.6	2.6%	\$44.2	1.5%
Health care and social assistance (private sector)	N/A	N/A	N/A	N/A
Arts, entertainment and recreation	*	*	\$98.3	1.2%
Accommodation and food services	\$259.4	0.3%	\$166.1	0.4%
Other services (except public administration)	*	*	\$87.9	0.4%
All private sector	\$10,388.9	0.5%	\$13,338.5	0.6%
All public sector	*	*	\$327.2	–

Note: sales with or without online payment; *confidential data;

N/A=figures not available

Source: Statistics Canada, April 2003

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According to historical data from the World Information Technology and Services Alliance (WITSA), business-to-business e-commerce activity totaled \$20.28 billion in Canada at the end of 2001, increasing by 79.9% over online sales of \$11.27 billion in 2000.

In partnership with IDC, WITSA has developed its e-commerce estimates as part of its *Digital Planet 2002* report, using domestic survey data on IT spending and e-commerce activity from more than 60 countries worldwide. WITSA defines e-commerce as all Internet-based transactions, including Internet EDI.

B2B E-Commerce in North America, by Country, 1999-2001 (in billions)

	1999	2000	2001
Canada	\$6.65	\$11.27	\$20.28
US	\$54.22	\$116.75	\$206.89

Source: World Information Technology and Services Alliance (WITSA), International Data Corporation, February 2002

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A third comparative estimate from Forrester Research forecasts that Canadian business-to-business e-commerce will increase to \$133.0 billion by the end of 2003, after reaching \$80.3 billion in 2002.

B2B E-Commerce Trade in Canada, 2001-2005 (in billions of CAD)

2001	\$46.2
2002	\$80.3
2003	\$133.0
2004	\$197.6
2005	\$272.5

Source: Forrester Research, January 2001; Statistics Canada, April 2002

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Broken down by province, Forrester estimates that the four largest provincial economies of Ontario, Quebec, British Columbia and Alberta account for nearly all of online trade in Canada, at 95.1% of business-to-business e-commerce in 2002.

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By 2005, business-to-business e-commerce in Ontario is expected to reach CAD \$141.7 billion, or 52.0% of total online trade in Canada.

B2B E-Commerce Trade in Canada, by Province, 2001-2005 (in billions of CAD)

	2001	2002	2003	2004	2005
Ontario	\$26.1	\$46.5	\$76.5	\$108.6	\$141.7
Quebec	\$12.3	\$18.5	\$27.4	\$38.4	\$51.6
British Columbia	\$4.2	\$6.8	\$10.9	\$16.4	\$23.0
Alberta	\$2.0	\$4.6	\$10.0	\$19.9	\$33.8
Saskatchewan	\$0.9	\$1.6	\$2.8	\$4.8	\$7.6
Manitoba	\$0.5	\$1.3	\$2.5	\$4.1	\$6.0
New Brunswick	\$0.4	\$0.7	\$1.2	\$2.0	\$3.0
Nova Scotia	\$0.3	\$0.6	\$1.3	\$2.1	\$3.1
Newfoundland	\$0.1	\$0.3	\$0.6	\$1.2	\$2.0
Prince Edward Island	–	\$0.1	\$0.2	\$0.3	\$0.5
Yukon	–	–	–	\$0.1	\$0.1
Northwest Territory and Nunavut	–	\$0.1	\$0.1	\$0.2	\$0.4
Total	\$46.2	\$80.3	\$133.0	\$197.6	\$272.5

Source: Forrester Research, January 2001; Statistics Canada, April 2002

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B. Business Use of the Internet

In what is arguably the most comprehensive study of national technology use to date, the World Economic Forum in partnership with INSEAD and the World Bank released the *Global Information Technology Report 2002-2003* in February 2003, ranking Canada sixth among the most networked economies in the world.

This detailed report scores countries according to its Networked Readiness Index, which compares the relative technological preparedness of 82 national economies and their ability to participate in the benefits of information and communications technology (ICT). Using a combination of subjective surveys and hard statistical data to examine each country's technology environment and use of ICT, a total of 64 variables were considered, prior to arriving at a final index score for each country.

Leading Networked Economies Worldwide, 2002-2003 (ranked by Networked Readiness Index score)

1. Finland	5.92
2. US	5.79
3. Singapore	5.74
4. Sweden	5.58
5. Iceland	5.51
6. Canada	5.44
7. UK	5.35
8. Denmark	5.33
9. Taiwan	5.31
10. Germany	5.29
11. Netherlands	5.26
12. Israel	5.22
13. Switzerland	5.18
14. South Korea	5.10
15. Australia	5.04

Note: based upon an index of 1 to 7, where 7 equals most networked

Source: INSEAD, World Economic Forum, February 2003

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Three main sub-indices were used in this study to examine each national economy, rating a country's technology environment, its readiness to use technology, as well as the current use being made of its technology infrastructure. These three sub-indices were further broken down to examine the activity of three main constituencies – government, business and individuals – as a means of scoring each country's use of ICT.

Although Canada ranked sixth overall, thanks in part to strong government adoption of e-business technologies, Canada received its lowest score within the business usage sub-index, ranking 14th worldwide in a tie with France.

Leading Economies' Business Usage of ICT, 2002-2003 (ranked by Networked Readiness Index score)

1. Germany	6.19
2. Sweden	5.96
3. US	5.95
4. Finland	5.93
5. Iceland	5.58
6. Netherlands	5.51
7. Singapore	5.49
8. UK	5.42
9. Denmark	5.40
10. Switzerland	5.39
11. Norway	5.23
12. South Korea	5.20
13. France	5.14
14. Canada	5.14
15. Hong Kong SAR	5.08

Note: based upon an index of 1 to 7, where 7 equals most networked

Source: INSEAD, World Economic Forum, February 2003

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Variables that were considered within this sub-index category include the amount of both business-to-business and business-to-consumer e-commerce activity in each country, as well as businesses' use of online marketing and other Internet-based communications. The study examined technology use among large businesses, as well as small and medium enterprises within each national economy.

In light of the role that the Canadian government has already played in encouraging e-business development, the above findings indicate that

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Canadian businesses need to do a better job of stepping up to the task of promoting e-business development themselves – both within their own organizations, and throughout their supply chains.

On a more positive note, it does appear that Canadian businesses have begun to close the gap with their US counterparts. According to data from WITSA, Canadian companies directed 16% of their IT budgets toward e-business initiatives in 2001, compared with an average 17% among US firms.

E-Business Technology Spending in North America, by Country, 1999-2001 (as a % of IT spending)

	1999	2000	2001
Canada	9%	13%	16%
US	13%	16%	17%

Source: World Information Technology and Services Alliance (WITSA), International Data Corporation, February 2002

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However, Statistics Canada has found that just 31.5% of private sector firms in Canada have a Web site, while 87.9% of public sector organizations have an online presence.

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Not surprisingly, service industry firms are the most likely to have a Web site, such as those in the information and cultural industry, which includes publishers, broadcasters and telecom service providers. Among the laggards are companies in the forestry and transportation industries, where there is less need for businesses to build a consumer-facing Web site, or one for marketing purposes.

Percent of Canadian Enterprises with a Web Site, by Industry, 2000-2002

	2000	2001	2002
Forestry, logging and support activities	4.7%	15.3%	9.4%
Mining and oil and gas extraction	22.6%	39.2%	35.5%
Utilities	31.3%	45.1%	47.4%
Construction	N/A	24.3%	22.9%
Manufacturing	38.0%	45.9%	54.7%
Wholesale trade	34.3%	37.6%	40.7%
Retail trade	22.9%	26.7%	30.7%
Transportation and warehousing	12.9%	11.1%	15.8%
Information and cultural industries	54.5%	65.1%	67.5%
Finance and insurance	34.4%	47.8%	43.2%
Real estate and rental and leasing	21.9%	22.3%	25.0%
Professional, scientific and technical services	30.0%	31.9%	33.4%
Management of companies and enterprises	16.9%	13.8%	23.2%
Administration and support, waste management and remediation services	32.7%	39.7%	35.1%
Educational services (private sector)	69.7%	61.7%	74.4%
Health care and social assistance (private sector)	15.6%	18.6%	18.2%
Arts, entertainment and recreation	36.0%	45.8%	51.0%
Accommodation and food services	18.5%	20.1%	21.7%
Other services (except public administration)	22.3%	24.5%	30.4%
All private sector	25.7%	28.6%	31.5%
All public sector	N/A	86.2%	87.9%

Note: N/A=figures not available

Source: Statistics Canada, April 2003

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When it comes to making purchases online, the public sector continues to lead the private sector in Canada. Nearly two-thirds of public sector organizations did some purchasing via the Internet during 2002, compared with just 31.7% of private sector firms.

The percentage of private sector firms making online purchases did see a significant increase last year, however, rising by more than nine percentage points from 22.4% of firms in 2001.

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Once again, businesses in the information and cultural industry are leading the adoption of Internet-based buying.

Percent of Canadian Enterprises Purchasing Goods and/or Services over the Internet, by Industry, 1999-2002

	1999	2000	2001	2002
Forestry, logging and support activities	7.4%	4.5%	11.0%	20.1%
Mining and oil and gas extraction	19.3%	20.4%	14.5%	26.4%
Utilities	24.7%	25.5%	31.5%	41.6%
Construction	N/A	N/A	16.7%	26.8%
Manufacturing	18.9%	21.3%	29.1%	40.5%
Wholesale trade	13.9%	22.9%	26.4%	36.3%
Retail trade	10.8%	13.5%	16.9%	29.1%
Transportation and warehousing	10.7%	15.0%	11.6%	19.2%
Information and cultural industries	49.6%	52.7%	51.8%	59.9%
Finance and insurance	12.7%	20.2%	24.9%	36.6%
Real estate and rental and leasing	8.2%	8.8%	13.4%	19.8%
Professional, scientific and technical services	30.0%	35.8%	42.1%	50.6%
Management of companies and enterprises	12.9%	8.5%	8.4%	21.1%
Administration and support, waste management and remediation services	13.4%	22.5%	30.9%	28.5%
Educational services (private sector)	27.2%	41.0%	39.3%	46.1%
Health care and social assistance (private sector)	9.5%	14.4%	20.0%	29.5%
Arts, entertainment and recreation	12.1%	15.9%	23.2%	35.6%
Accommodation and food services	3.9%	10.1%	9.4%	18.2%
Other services (except public administration)	6.5%	10.5%	14.8%	23.4%
All private sector	13.8%	18.2%	22.4%	31.7%
All public sector	-	49.1%	54.5%	65.2%

Note: N/A=figures not available

Source: Statistics Canada, April 2003

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In Canada, purchasing professionals are not unlike their US counterparts when it comes to their widespread use of simple e-procurement solutions, such as those that let them search supplier databases or view suppliers' catalogs online.

However, fewer Canadian companies appear to be using Internet auctions or online RFQs/RFPs.

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According to the Purchasing Management Association of Canada's (PMAC) survey of 173 Canadian purchasing professionals, just 45% of respondents said that their companies were using online RFQs/RFPs as of mid-2002, while only 8% were participating in online auctions.

This compares with 68.4% of US companies that used online RFQs/RFPs and 27.2% of US companies that used an online auction during the fourth quarter of 2002, according to the Forrester Research/ISM survey of US purchasing professionals.

Canadian Procurement Professionals' Use of E-Procurement Solutions, by Channel, 2002 (as a % of respondents)

Use the Internet to identify potential suppliers

94%

Use the Internet to communicate with supplier base

90%

View online electronic catalogs

89%

Post RFQs/RFPs on the Internet

45%

Accept electronic submission of bids

20%

Use vertical or horizontal online marketplaces

10%

Participate in online auctions

8%

Note: n=173 purchasing professionals

Source: Purchasing Management Association of Canada, The Conference Board of Canada, May 2002

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Canadian companies were also found to be channeling small portions of their overall purchasing activity online, which is similar to their US counterparts.

Surprisingly though, the PMAC study noted a decline in online trade between its 2000 and 2002 surveys. Although this decline may be a result of a statistical variation, it does confirm that online purchasing has certainly not increased over the past two years.

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On the other hand, the study's authors point out that respondents to the 2002 survey expect that, on average, 35% of their total trade will be channeled online by 2005, indicating that as in the United States, the build-out of e-commerce capabilities is continuing, albeit at a slow pace.

Percent of Canadian Companies' Total Purchasing Conducted via the Internet, 2000 & 2002



Note: n=173 purchasing professionals surveyed in 2002

Source: Purchasing Management Association of Canada, The Conference Board of Canada, May 2002

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The PMAC study found that among the most popular products that Canadian companies are purchasing online, 42% of survey respondents listed office supplies, furniture and equipment as their top product category, followed by 29% of respondents who frequently purchase IT equipment, hardware and software online. Less than 20% of respondents said that they purchase other indirect goods or direct goods online.

The PMAC study went on to discover that 36% of Canadian respondents use an ERP system, while 32% of the surveyed Canadian companies are using an extranet as of mid-2002. Looking forward to 2004, 64% of respondents said that they expect to be using an extranet or ERP system as part of their procurement operations by then.

Just under half of Canadian purchasing professionals, at 44% of respondents, said that online procurement was one of their companies' top 10 strategic priorities.

The most significant finding of this survey, however, reveals that a substantial 82% of Canadian organizations said they do not request that prospective suppliers offer their products or services online, while 79% said that they do not give their current suppliers any incentives or encouragement to sell online either.

As mentioned earlier in this chapter, it is important for Canadian businesses to show greater leadership in the adoption of e-business solutions. Indeed, one of the key drivers of e-business development is the leadership of large enterprises, which play a crucial role in encouraging the adoption of e-business technology throughout their own organizations, as well as their supply chains.

Data from the PMAC survey indicates that businesses in Canada are not as proactive as they could be at encouraging e-business adoption among their trading partners, which may in turn explain why Canadian companies trail their US counterparts in the use of various e-procurement tools.

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The difference between Canadian and US businesses' views on information technology is underscored by a late-2002 study conducted by the Info-Tech Research Group, which found that 30% of US business leaders view technology as a key strategic tool within their organization.

By comparison, just 6% of Canadian business leaders view technology as a strategic tool, while 17% of their British counterparts consider IT to be an important element of their competitive strategy.

"US firms are always looking for a strategic advantage over their competition, and often these advantages come from the use of information technology."

– Jason Livingstone, Info-Tech Research Group

In February 2003, Statistics Canada released an in-depth survey of electronic network use among businesses in Canada, finding that once again, it is the public sector that leads private sector firms in its use of electronic networks. This study was conducted as a supplement to the 2001 Survey of Electronic Commerce and Technology, and includes results from retail industry firms, along with those firms that sell to other businesses. Information exchanged via EDI networks was included in the survey as well.

For both public and private Canadian businesses, the most common means of sharing electronic information is through the use of electronic catalogs. Large organizations with more than 500 employees were the most likely to have this capability.

Canadian companies were also more likely to share electronic product information with their customers than with their suppliers, or even internally within their organization.

Canadian Companies' Use of Electronic Networks for Sharing Product Description Catalogs, by Business Size, 2001 (as a % of respondents)

	Within organi- zation	With custom- ers	With sup- pliers	Other organi- zations
Total private sector	15%	26%	11%	10%
1-99 full-time employees	15%	27%	11%	10%
100-499 full-time employees	36%	49%	26%	21%
500+ full-time employees	46%	53%	21%	19%
Total public sector	35%	34%	13%	24%
1-99 full-time employees	14%	19%	7%	17%
100-499 full-time employees	31%	32%	9%	20%
500+ full-time employees	44%	39%	17%	27%

Source: Statistics Canada, February 2003

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When it comes to sharing demand projections, significantly fewer Canadian companies had the ability to distribute this information internally via an electronic network, let alone with outside organizations.

As might be expected, Statistics Canada found that private sector firms in particular were rather cautious about sharing such sensitive information, especially with their external trading partners.

Canadian Companies' Use of Electronic Networks for Sharing Demand Projections, by Business Size, 2001 (as a % of respondents)

	Within organization	With external organizations
Total private sector	4%	3%
1-99 full-time employees	4%	3%
100-499 full-time employees	12%	4%
500+ full-time employees	16%	8%
Total public sector	7%	4%
1-99 full-time employees	7%	–
100-499 full-time employees	5%	–
500+ full-time employees	8%	5%

Source: Statistics Canada, February 2003

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A similarly low number of Canadian businesses were able to share inventory information with their trading partners in 2001, although more than one-quarter of medium and large companies did have the ability to disseminate inventory data within their own organizations.

Canadian Companies' Use of Electronic Networks for Sharing Inventory Data, by Business Size, 2001 (as a % of respondents)

	Within organization	With external organizations
Total private sector	9%	5%
1-99 full-time employees	9%	5%
100-499 full-time employees	25%	11%
500+ full-time employees	29%	13%
Total public sector	17%	6%
1-99 full-time employees	16%	–
100-499 full-time employees	13%	3%
500+ full-time employees	20%	9%

Source: Statistics Canada, February 2003

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After product catalogs, Canadian companies are most likely to be sharing order status information with external organizations via electronic networks, especially on the customer side of their operations.

Once again, it is medium and large companies that are most capable of doing this, due in part to their higher volume of trade that necessitates the electronic exchange of information. Larger companies are also better able to implement and maintain electronic trading capabilities than their smaller counterparts.

Canadian Companies' Use of Electronic Networks for Sharing Order Status Information, by Business Size, 2001 (as a % of respondents)

	Within organization	With external organizations
Total private sector	7%	13%
1-99 full-time employees	7%	13%
100-499 full-time employees	24%	25%
500+ full-time employees	31%	29%
Total public sector	15%	13%
1-99 full-time employees	6%	6%
100-499 full-time employees	10%	10%
500+ full-time employees	21%	17%

Source: Statistics Canada, February 2003

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Turning to how small and medium enterprises (SMEs) are using the Internet in Canada, the Yankee Group found in November 2002 that 90% of SMEs go online to do research and competitive analysts.

Nearly three-quarters of SMEs use e-mail as a means of corresponding with their suppliers, customers, or other company locations. Less than half of SMEs go online to do some kind of comparison-shopping, however, indicating that online purchasing among SMEs is less common as well.

Top Five Online Activities of SMEs in Canada, 2002 (as a % of respondents)

Research and competitive analysis	90%
E-mail to suppliers	72%
E-mail to other company locations	71%
E-mail to customers	71%
Comparison shopping	47%

Source: Yankee Group, November 2002

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In another study conducted by the alliance of Canadian Manufacturers and Exporters (CME), more than 60% of the small and medium companies it surveyed said that they used the Internet largely for communication and access to information.

The percent of companies using the Internet for e-commerce or online collaborative purposes dropped considerably, however, with just over one-third of respondents buying or selling goods online, and 35% posting product catalogs on the Internet.

Canadian Companies' Use of E-Business Technologies, 2002 (as a % of respondents)

Communication

78%

Access to information

63%

Sales

38%

Listing product catalogs

35%

Interaction with business partners

35%

Purchasing

32%

Marketing

31%

Learning

16%

Product development

4%

Product testing

1%

Note: n=410

Source: Canadian Manufacturers & Exporters, October 2002

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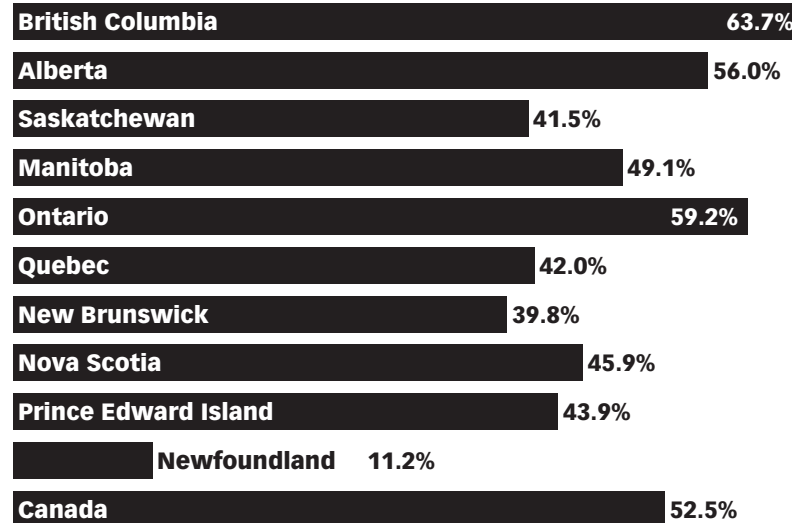
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According to the Canadian Federation of Independent Business (CFIB), 52.5% of the 17,704 Canadian SMEs that it surveyed had a company Web site, as of the first half of 2002.

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Broken down by province, British Columbia led the way with 63.7% of businesses there having a company Web site, followed by 59.2% of businesses in Ontario.

Canadian SMEs that Have a Web Site, by Province, 2002 (as a % of respondents)



Note: n=17,704; SMEs defined as businesses with between 1 and 500 employees

Source: Canadian Federation of Independent Business (CFIB), July 2002

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As of late 2002, the Yankee Group has found that the vast majority of Web sites are used as a sales and marketing tool, with more than 90% of Canadian SMEs providing basic company and product information on their home page.

Just 29% of Canadian SMEs had the ability to sell goods via their company Web site as of November 2002, although an additional 15% of respondents said that they planned to add such capabilities within the next 12 months.

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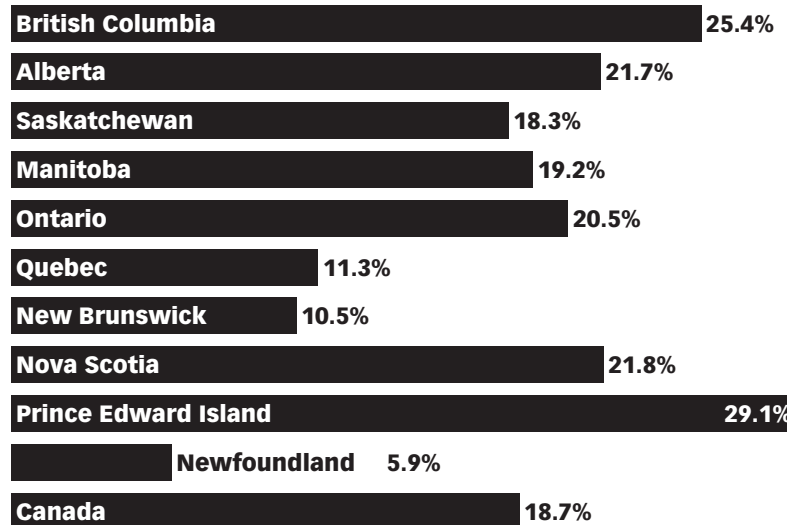
“This conservative approach to adopting e-business within Canadian organizations equates to the majority of small and many medium-sized firms remaining stagnantly in a ‘wait and see’ mode.”

– IDC Canada, November 2002

In the CFIB study, Prince Edward Island led the way among the provinces, with 29.1% of businesses saying that they are able to sell online, compared with 25.4% of SMEs in British Columbia and 20.5% of respondents in Ontario.

It is worthwhile to note that just 11.3% of businesses in Quebec were selling their products or services online in 2002, which is significantly lower than their counterparts in Ontario.

Canadian SMEs that Sell Online, by Province, 2002 (as a % of respondents)



Note: n=17,188; SMEs defined as businesses with between 1 and 500 employees

Source: Canadian Federation of Independent Business (CFIB), July 2002

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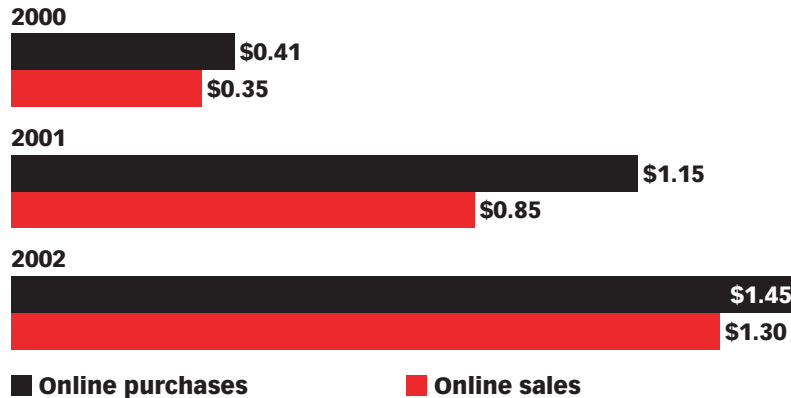
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According to data from SES Research, Canadian SMEs accounted for CAD \$2.75 billion worth of e-commerce transactions in 2002, up from CAD \$2.0 billion in 2001.

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On the buy side, Canadian SMEs were expected to spend CAD \$1.45 billion online in 2002. SES has also forecast that online sales by SMEs would nearly double in 2002, increasing from CAD \$0.85 billion in 2001 to CAD \$1.3 billion by the end of 2002.

Canadian SME* E-Commerce Transaction Values, 2000-2002 (in billions of CAD)



Note: *small- to medium-sized enterprises
Source: SES Canada Research, August 2002

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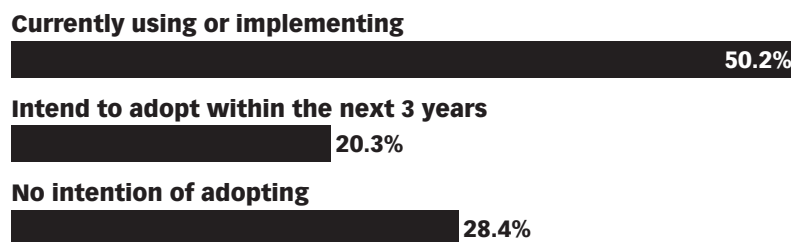
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According to the *Net Impact Study Canada*, 50.2% of Canadian SMEs were currently using or in the midst of implementing an e-business solution of some kind as of late 2002. A further 20.3% of SMEs said that they planned to adopt e-business solutions within the next three years.

In general, the *Net Impact Study Canada* found that the adoption of e-business solutions peaked among Canadian SMEs in 2000 and 2001, before slowing in 2002.

A total of 398 businesses with between 50 and 500 employees were surveyed for this study.

Canadian SMEs' Deployment of E-Business Solutions, 2002 (as a % of respondents)



Note: n=398; small and medium enterprises defined as having between 50 and 500 full-time employees
Source: *Net Impact Study Canada*, November 2002

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Taking a look at SMEs' buy-side and sell-side operations, the *Net Impact Study Canada* found that the most popular e-business solutions that have been adopted by Canadian SMEs include customer service and support applications, followed by Internet-based marketing solutions.

These customer-facing solutions were furthermore found to have provided businesses with the highest increase in revenues and greatest cost savings, compared with other e-business solutions.

The *Net Impact Study Canada* has also discovered that as of mid-2002, 48.7% of Canadian SMEs were using an e-commerce solution of some kind, while just 21.1% were making use of supply chain management technology.

Leading E-Business Solutions Used by Canadian SMEs, 2002 (as a % of respondents)

Customer service and support	56.9%
Customer development and e-marketing	55.0%
E-Commerce (including B2B)	48.7%
Finance and accounting	39.9%
Corporate portal	31.7%
Sales force automation	25.2%
Procurement and MRO	25.0%
Human resources	23.5%
Supply chain management	21.2%

Note: n=398; small and medium enterprises defined as having between 50 and 500 full-time employees

Source: Net Impact Study Canada, November 2002

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Similar to other results from Statistics Canada, the government was found to be ahead of the private sector in its use of supply chain management solutions. It was followed by the communications industry, and the manufacturing sector, which was much farther behind.

As for e-commerce systems, the wholesale/retail sector was the most likely to be using such solutions, with 67.3% of respondents having adopted such technology.

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Similarly high numbers of SMEs were making use of online customer development and e-marketing solutions, at about two-thirds of respondents from the wholesale/retail, communications/ISP and financial services sectors.

Canadian SMEs Adopting E-Business Solutions, by Industry, 2002 (as a % of respondents)

	Manu- facturer	Financial services	Wholesale/ retail trade	Commu- nication and ISP	Public sector
Customer develop- ment and e-marketing	38.5%	63.5%	68.8%	63.6%	55.8%
Customer service and support	40.4%	71.0%	62.5%	54.2%	68.2%
E-Commerce (including B2B)	42.5%	38.7%	67.3%	45.5%	39.5%
Finance and accounting	35.8%	58.1%	33.3%	35.7%	51.2%
Human resources	13.5%	25.8%	16.7%	43.6%	37.2%
Procurement and MRO	30.8%	19.4%	22.9%	20.0%	23.3%
Sales force auto- mation	25.0%	30.2%	34.7%	25.5%	9.3%
Supply chain management	17.3%	22.6%	18.8%	25.2%	30.2%
Corporate portal	11.5%	50.8%	32.7%	67.3%	44.2%

Note: n=398; small and medium enterprises defined as having between 50 and 500 full-time employees

Source: Net Impact Study Canada, November 2002

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On average, Canadian SMEs said that through the use of various e-business solutions they had seen their revenues increase by 7.0%, while their cost of goods sold had decreased by an average 9.5%.

Productivity gains, as measured by the decrease in sales, general and administrative expenses, averaged 7.5% among the 398 SMEs surveyed by the *Net Impact Study*.

Canadian SMEs' Average Revenue and Productivity Gains from the Use of E-Business Solutions, 2002

Average revenue increase



Average decrease in the cost of goods sold



Average decrease in sales, general and administrative costs



Note: n=398; small and medium enterprises defined as having between 50 and 500 full-time employees

Source: Net Impact Study Canada, November 2002

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Not surprisingly, satisfaction with e-business investments appears to be higher among those organizations that have the greatest experience with Internet use. Public sector firms, for example, were most likely to say they are satisfied with their e-business investments, followed by financial services firms.

Because these organizations have had the opportunity to fine-tune their e-business initiatives over time, they are more likely to have seen significant long-term returns on their initial investments.

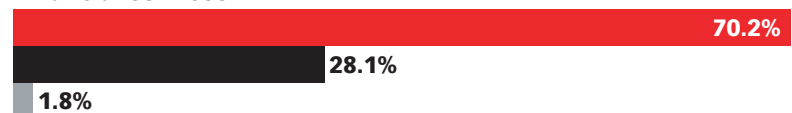
However, it is also apparent that e-business solutions have impacted each industry differently. For example, firms from the financial services industry reported an average 12.7% increase in revenues thanks to their use of e-business solutions, while companies from the wholesale/retail sector saw revenues increase by an average 4.4%.

Canadian SMEs' Satisfaction with Their Investment in E-Business Solutions, by Industry, 2002 (as a % of respondents)

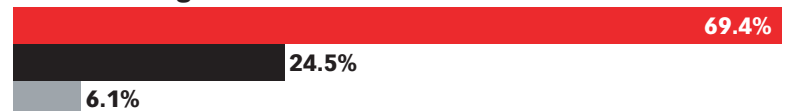
Public sector



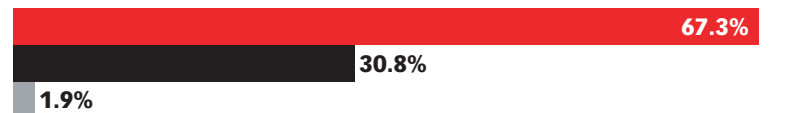
Financial services



Manufacturing



Communication and ISP



Retail and distribution



■ Satisfied ■ Ambivalent ■ Unsatisfied

Note: n=398; small and medium enterprises defined as having between 50 and 500 full-time employees

Source: Net Impact Study Canada, November 2002

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As of early 2003, the CFIB has found that many of its SME members are continuing to focus on maximizing the benefits of those e-business solutions that they have already purchased, instead of starting new initiatives. This is a result of both the renewed focus upon ROI within IT spending in general, as well as the basic fact that it takes time to fine-tune e-business projects before they are able to show a return.

Broadband Internet Access

According to the Canadian Federation of Independent Business (CFIB), 50.1% of the 17,881 Canadian SMEs that it surveyed during the first half of 2002 had high-speed Internet access.

Broken down by province, British Columbia led the way, with just over two-thirds of SMEs having broadband connections. British Columbia was closely followed by Alberta and then Saskatchewan where 63.3% and 62.9% of businesses had high-speed Internet connections, respectively.

Broadband use among businesses in both Quebec and Ontario was surprisingly below the national average.

Canadian SMEs with High Speed Internet Access, by Province, 2002 (as a % of respondents)

British Columbia	66.2%
Alberta	63.3%
Saskatchewan	62.9%
Manitoba	60.5%
Ontario	44.5%
Quebec	46.5%
New Brunswick	34.7%
Nova Scotia	51.2%
Prince Edward Island	34.4%
Newfoundland	32.2%
Canada	50.1%

Note: n= 17,881; SMEs defined as businesses with between 1 and 500 employees

Source: Canadian Federation of Independent Business (CFIB), July 2002

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In August of 2002, the Yankee Group surveyed 300 SMEs, finding that 55% of respondents turned to a local or regional Internet service provider for Internet access.

Another 27% of respondents turned to their local phone company, while 9% of Canadian SMEs used a national ISP.

SMEs in Canada with Internet Access, by Service Provider, 2002 (as a % of respondents)

Local/regional ISP

55%

Company providing local phone

27%

National ISP

9%

Online provider like AOL

4%

Company providing long-distance phone

1%

Company providing WAN/VPN

1%

Other

1%

Note: n=300

Source: Yankee Group, August 2002

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In another survey from August 2002, SES Research found that 32% of Canadian SMEs accessed the Internet via a dial-up connection.

More than half of the businesses surveyed, at 56% of respondents, used either a DSL or cable modem connection for Internet access, with DSL connections being preferred by 40% of Canadian SMEs.

Canadian SME's* Who Use the Internet, by Access Type, 2002 (as a % of businesses surveyed)

High speed digital subscriber line (DSL)

40%

Dial-up

32%

Cable modem

16%

Another type of dedicated connection

8%

Multiple means of access

4%

Note: *small- to medium-sized enterprises

Source: SES Canada Research, August 2002

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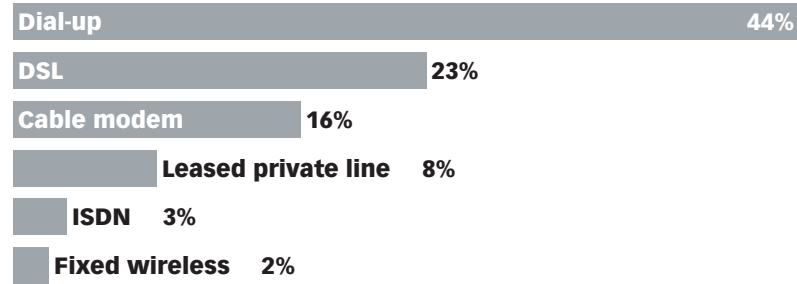
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A comparative survey published by the Yankee Group in November 2002 found that 39% of Canadian SMEs used either a cable modem or DSL connection to access the Internet.

A significant 44% of SMEs were using a dial up connection for Internet access.

Primary Type of Internet Access Used by SMEs in Canada, 2002 (as a % of respondents)



Source: Yankee Group, November 2002

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A total of 300 Canadian SMEs with between 1 and 199 employees were surveyed for this study.

Employee Internet Access

According to a survey conducted by Ipsos-Reid, 38% of Canadian workers have access to the Internet in their workplace as of late 2002, up slightly from 34% of Canadian workers in 2000.

By comparison, eMarketer estimates that 42.9% of Americans have access to the Internet at work, with 37.0% of all US workers able to go online on a regular basis in their workplace.

Percent of Canadian Adults with At-Work Internet Access, 2000 & 2002



Note: n=1,000

Source: Ipsos-Reid, April 2003

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When broken down by region, the NFO Group found in February 2002 that Ontario led the way among other provinces with 38% of its workers able to use the Internet on the job.

By comparison, 36% of employees in British Columbia and 30% of workers in Quebec had at-work Internet access in early 2002.

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



Source: NFO CFgroup, February 2002

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As with their US counterparts, it has been necessary for Canadian companies to put in place Internet usage policies for their employees, many of whom may be tempted to go online for personal reasons during the work day, thereby cutting in to productivity.

For several companies, the solution has been to restrict Internet access to those employees who absolutely need to go online. Other companies have been rather liberal about granting Internet access, although they have developed usage policies that restrict personal use to some degree.

Ipsos-Reid has found that 57% of Canadian at-work Internet users are now working under such policies, compared with 33% of Canadian workers two years before.

Percent of Canadian At-Work Internet Users Whose Companies Have a Personal Internet Usage Policy, 2000 & 2002



Note: n=1,000

Source: Ipsos-Reid, April 2003

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But despite these efforts to supervise employee Internet use, the Ipsos-Reid survey found that 88% of Canadian employees with at-work Internet access went online for personal reasons, spending an average 4.5 hours per week enjoying extracurricular access to the world outside their workplace.

In explaining why workers have increased their at-work Internet use over the past two years, the study's authors cited the benefits of at-work access to broadband, in addition to the ability of workers to send personal e-mails, shop online, or do online banking from their workplace.

The extent to which employees may have shifted their personal use of office phone lines over to the Internet was not covered in the study.

Nonetheless, Ipsos-Reid did acknowledge that the Internet has substantially improved employee productivity, with Canadian workers spending an average 10.8 hours per week doing business-related tasks online.

Among the most common online activities was work-related e-mail, which was used by 88% of respondents to the survey. Industry research was also frequently done online, while other tasks such as online shopping or business-related purchasing were less common among Canadian workers with Internet access.

Canadians' At-Work Use of the Internet for Job-Related Activities, 2002 (as a % of respondents)

E-Mail

88%

Conduct industry research

73%

Search for public information about their own company

47%

Search for public information about their competitors

45%

Shop for business-related purchases

43%

Make business-related purchases

27%

Conduct online banking transactions

11%

Note: n=1,000

Source: Ipsos-Reid, April 2003

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