Deloitte.

European eCommerce Assessment 2012

Benchmarking the top 200 in online retail

Online Business Innovation
April 2012

Preface

Plenty of retail opportunities in eCommerce

This white paper presents a picture of the current state of online retail across Europe. It is aimed at retailers who wish to understand the latest trends and required online capabilities to meet consumer expectations and develop new channels of growth.

To produce this white paper, Deloitte benchmarked and analyzed Europe's top 200 online retailers on 140 eCommerce capabilities.

We found that industry leaders in eCommerce have made significant efforts in connecting with their customers and improving the shopping and fulfillment experience. However, big differences remain between sectors and countries, so opportunities exist to be exploited for small and large retailers alike. Since customers have come to expect robust and sophisticated online capabilities, retailers need to step up their efforts to compete successfully in this competitive and international marketplace.

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Introduction

The European eCommerce market is developing at a breathtaking pace. It has even outgrown US ecommerce sales[1] in total size. As this market matures rapidly, international web retailers are targeting Europe's domestic markets. The retail industry is waking up to the fact that digital initiatives are no longer at the periphery of business but core to driving growth and engaging customers. Pure players and traditional retailers continue to look for new channels of growth , and they have begun experimenting with mobile commerce and in-store technology. It's a challenging time for retailers to compete in this dynamic marketplace.

The speed and impact of this technological development prompted Deloitte to research the latest retail trends in eCommerce, and those findings are presented in this white paper. The aim of the research is to support retailers in understanding the trends and required capabilities in eCommerce and – ultimately - in growing their online business.

Our assessment starts by discussing that state of eCommerce maturity across Europe, and zooms in on the differences between pure players and traditional retailers. The next three chapters analyze shopping experience, fulfillment capabilities and innovation in three sectors: Fashion, Consumer Electronics and General Merchandise. We then move onto mobile commerce, highlighting the differences between countries and various types of retailers. We conclude with our perspective on future growth opportunities for retailers.

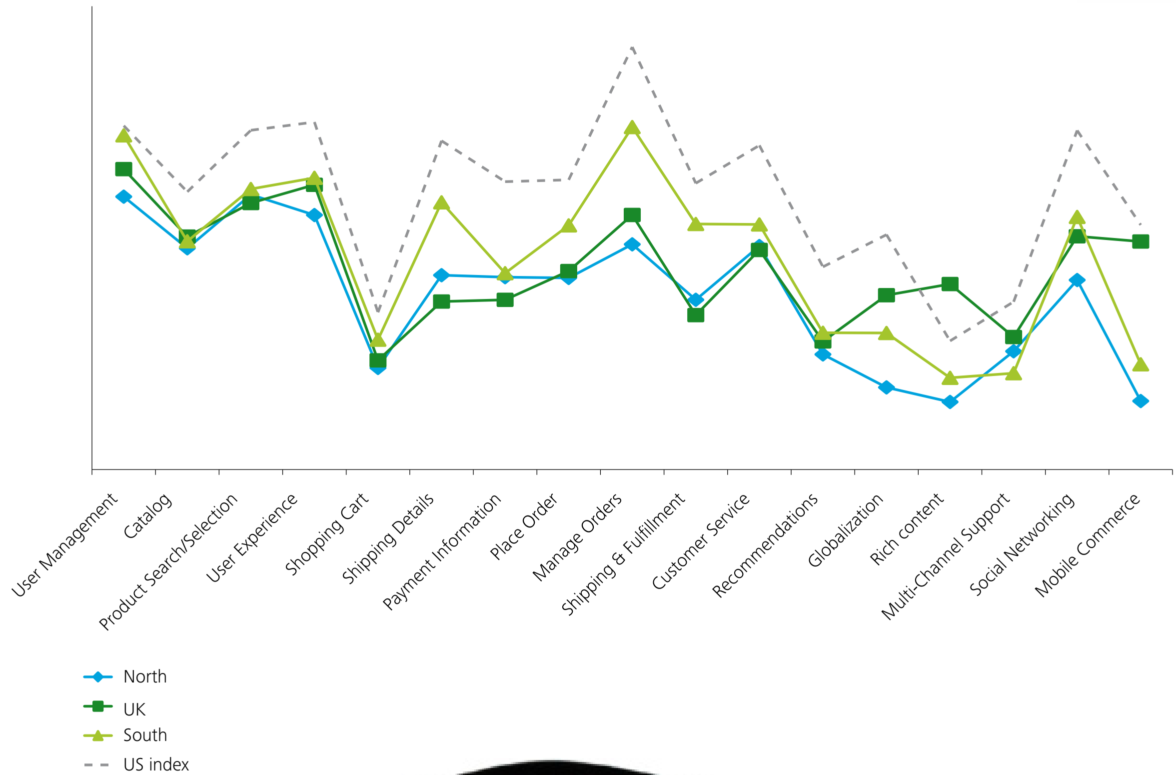
1 Internet Retailer Top 400 Europe

The European landscape

The eCommerce landscape in Europe is highly segmented with large differences between countries and sectors. The UK and Northern Europe (Germany, the Netherlands and Sweden) are usually perceived as the most mature because they have the highest percentage of online buyers. France follows closely[2]. Mediterranean countries (including Italy, Spain and Turkey) trail behind when it comes to buying online. However, when we look at consumer-facing eCommerce capabilities, Southern Europe generally outperforms Northern Europe.

Turkey, dominated by pure players, is very strong on fulfillment capabilities such as shipping options and integrated order tracking. France, with its large consumer electronics retailers, is the most mature in product discovery. Italy, with its major fashion brands, leads in global delivery. But when it comes to innovative features such as ordering from digital magazines and mobile commerce, the UK is still way ahead.

Figure 1: eCommerce maturity by geographical location



2 Forrester European Online Retail Forecast 2010 to 2015

Turkey leads the way in pure play

Turkey has the highest share of pure players; almost 60% of its top 25 online retailers are pure players. The Netherlands comes next, where half of its leading 25 online retailers started out as pure players. Some of these pure players have begun to open bricks-and-mortar shops, however. These vary from a centralized showroom at the warehouse to a handful of stores across the country.

Pure players in Turkey, the Netherlands and Sweden are more advanced than traditional retailers in areas such as product search, payment options, targeted recommendations, social media integration and mobile commerce. Turkey especially is developing quickly. Leading pure players markafoni.com and trendyol.com have attracted capital investments from foreign investors such as eBay, Amazon.com and Tiger Global. In the Netherlands, the biggest webshops wehkamp.nl and bol.com are pure players; wehkamp.nl even makes the Internet Retailer's Top 10 of Largest Web-only Sales in Europe.

It should be noted that traditional retailers are now stepping onto pure players' turf. The recent acquisition of bol.com by retail chain Ahold is a notable example.

Traditional retailers in mature markets

Big chain retailers lead in the largest markets: France, Germany and the UK. Traditional retailers in these markets offer more mature capabilities in catalog browsing and product search. When it comes to other capabilities, the gap between traditional retailers and pure players is small and differences vary per country. Traditional retailers in the UK are mostly concentrated in the general merchandise sector, with big retail chains such as Tesco and ASDA showing advanced maturity in mobile commerce. French retail chains, such as FNAC and Sephora, also show more mature support for mobile commerce compared to pure players. In Germany, social networking is a differentiator, with more mature capabilities provided by large retail chains such as Conrad and Babywalz.

Consumer electronics

The highly competitive consumer electronics market is the largest online retail segment across Europe. French retailers are the most mature in this sector, with big retail chains providing advanced support for product discovery, integration with social networks, special interest groups and cross-border delivery. Remarkably, the tech-savvy image of this sector doesn't translate into innovative customer-facing capabilities: mobile support within this sector is limited, with only one in four retailers providing any form of mobile commerce.

Easy product discovery

It may come as no surprise that the consumer electronics sector excels in supporting the consumers' orientation phase compared to other sectors. This translates into more extensive features for searching products and browsing the catalog. The ability to compare products on the website highlights clearly these differences with other sectors: over 90% of consumer electronics retailers offer product comparison features. Innovative technology supports the customer in searching for products, and keystroke search has found its way into the European eCommerce domain, with sites like Alternate (Germany) leading by best practice. Moreover, two-thirds of shops within the consumer electronics sector offer direct purchases from within search results.

France leads the way in product discovery. All large retailers like FNAC, Pixmania and Price Minister provide mature support with shopping capabilities and offer targeted recommendations throughout the shopping journey. France does particularly well with its cross- and upsell capabilities. For instance, warranties and accessories are upsold from the shopping cart in a seamless manner. Other countries, especially Italy, the Netherlands and Spain, are far less mature in their ability to cross- and upsell products.

Multi-channel fulfillment flourishes

Different aspects of the fulfillment phase are strongly supported throughout the eight European countries. In the consumer electronics sector, 90% of the shops support order tracking and 75% provide features for shipment tracking, mostly with advanced online features to look up the real-time status of the order. Compared to other sectors, this is a high rate of adoption.

This sector is also the most mature in multi-channel fulfillment. The Netherlands leads the way, providing integration between bricks and mortar and online shopping. The majority of Dutch retailers, such as Coolblue, Dexcom and Mycom, offer item pick up and shipment to bricks-and-mortar stores, and two-thirds support the return to stores of items bought on line. In addition, these retailers provide online access to in-store product availability.

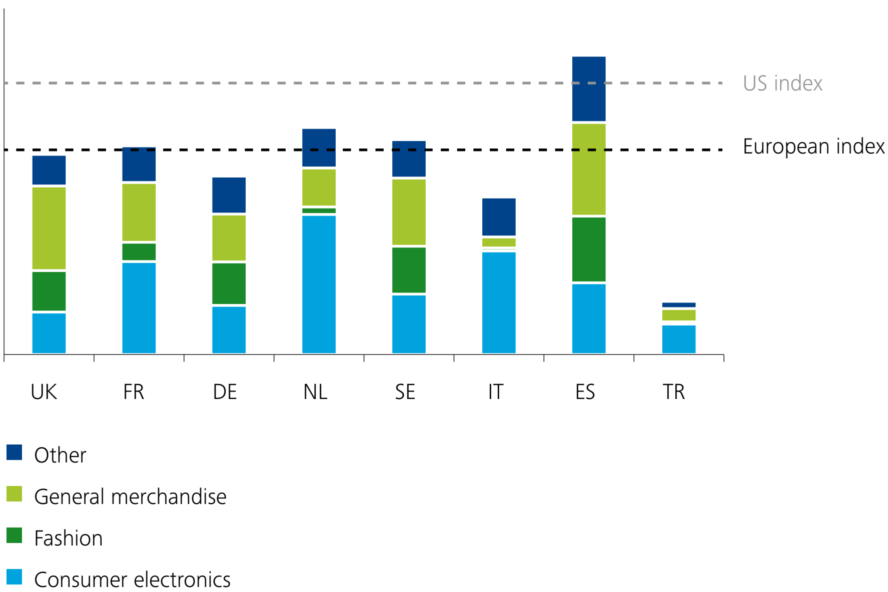
Despite mature fulfillment capabilities, cross-border delivery is limited in this sector. Only Germany and France support global fulfillment & shipping support.

Integration of social media

The consumer electronics sector scores well on social features. Social media integration is most mature in France with FNAC and Price Minister offering support for Facebook, Google+ and Twitter. Special interest groups around specific product categories also feature highly.

A handful of retailers in this sector, mainly in the UK and the Netherlands, use store blogs and multi-media content to provide specific support. A good example is Create2Fit in the Netherlands. This webshop contains video reviews, and product descriptions by the CEO and experts are found frequently in the product catalog. These are much appreciated by customers trying to decide which product to buy.

Figure 2: Multi-channel capability by country



Fashion

The fashion market is one of the largest and fastest growing online markets in Europe. It is, however, relatively immature compared to more established sectors like consumer electronics or general merchandise. Retailers in this sector may be playing catch up, but they are doing so rapidly. Pure players such as Zalando and Nelly.com are keeping the pressure on well-known fashion retailers. Unsurprisingly, Italy is the fashion leader in Europe, being the home country of heavyweights like Gucci and Emporio Armani.

Intuitive shopping is limited

Branding and presentation tend to take precedence over product orientation in the fashion sector. There is much to improve when it comes to offering customers a structured and intuitive shopping experience. Feature search and multiple ways of navigating the product catalog is limited at most fashion shops, with only two out of five supporting search on key product features such as brand, color, size and design.

Recommendations are relatively undeveloped compared to other sectors, which is surprising in an industry where opinions of social peers are so highly valued. Only 12% of retailers use recommendations based on purchase behavior, while three in five retailers do not use any recommendations at all. Sweden is the best of all countries assessed. There, all fashion retailers using some limited form of recommendation, but there is still room for improvement, particularly in targeting capabilities and showing promotions across customer touch points.

Some retailers have started to experiment with social shopping, such as the Otto Group in Germany. They expanded their eCommerce portfolio with Smatch.com, which uses Facebook 'likes' to promote products. Swedish pure player Nelly.com takes a different angle by promoting outfits worn by celebrities. These promotions are tightly integrated with the webshop so that consumers purchase similar items

Global delivery, but still single-channel

Global delivery is well-established in the fashion sector. Fashion shops do very well in detecting the customer's location, sending him or her to a country-specific webshop and offering local content. Italy scores much higher on globalization capabilities than the other countries. Italian fashion brands are true global players with global markets: 50% of fashion revenues come from abroad[3] and Armani is currently shipping to over 50 countries.

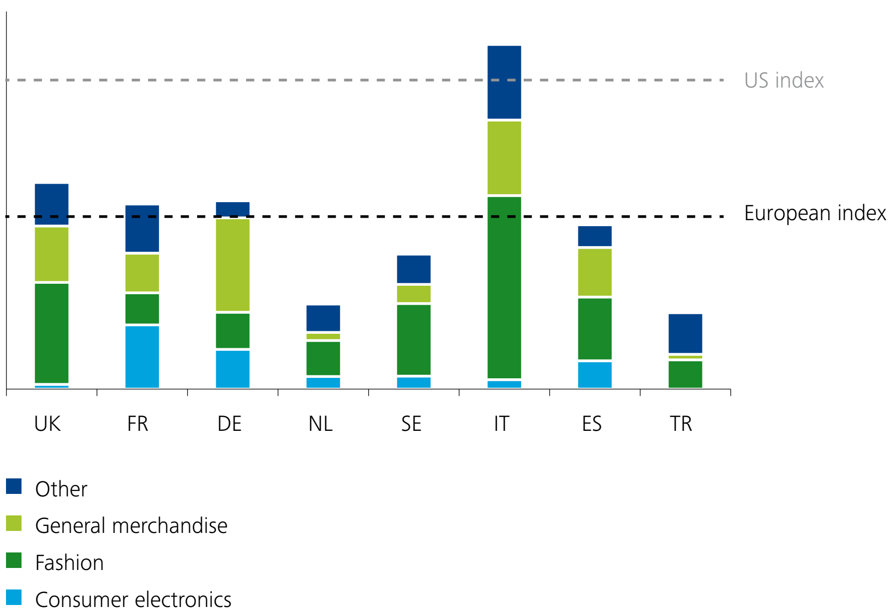
Nevertheless, multi-channel has not yet gained a foothold in the fashion sector. Compared to other sectors, customers are offered fewer opportunities to pick up products in store, return them to a store or schedule in-store appointments. Only one in five fashion retailers allow items bought online to be picked up from the store. Spain shows the greatest maturity. Even so, only a few retailers such as Mango and Zara are using multi-channel retailing.

Taking the lead in mobile shopping

Fashion may be immature when it comes to multi-channel fulfillment, but it is the only sector taking seriously mobile navigation to retail stores. Mobile capabilities are most advanced in the UK, with the majority of leading fashion retailers offering mobile support. A good example is Topshop's mobile site. This not only allows you to browse and order products but also remembers your size, checks in-store availability and shares promotions with friends.

The capability to shop from magazines, optimized for tablet devices, has found its way into Europe. In the US, retailers such as Net-a-porter and Zappos have been issuing digital magazines, and some even partner leading fashion magazines such as Vogue and Elle. US customers love this as 70% of tablet owners surveyed by GfK said they would like to be able to buy items by clicking ads in a digital magazine[4]. In Europe, this capability is still being developed. Only a handful of retailers, such the UK retailer ASOS, provide a digital magazine that is integrated with the webshop, meaning an item purchase is just one click away.

Figure 3: Globalization capability by country



3 Politechnico Milano 2011

4 eMarketer, Curated ecommerce, March 2012

General merchandise

The general merchandise sector consists of many types of retailers offering multiple product categories. The main ones are department stores and large supermarkets that have moved into non-food merchandise. The UK is the most mature and innovative player, making great strides in developing mobile commerce. Moreover, UK general merchandisers often provide blogs with advisory content to promote specific products or services.

Targeted recommendations on the rise

The widely diverse range of product categories and products should mean it's no surprise that product search and catalog browsing is strongly developed in most countries. Feature or keyword search is supported by 80% of all general merchandise retailers. The opportunity to put products straight into your shopping cart from the search results page is offered by half of all general merchandisers. That's twice more than in the fashion sector. Germany' performance is particularly outstanding. Shops such as Neckermann offer a conveniently arranged product overview, an extensive search function and the possibility to filter the search on characteristics like brand, size, color and design.

Recommendations are most mature in France. Large French retail chains, such as Carrefour and Cdiscount, offer recommendations based on purchasing and browsing patterns from homepage to shopping cart. Cdiscount, for instance, offers recommendations on every page based on purchasing and browsing patterns of the user or similar users.

A loyalty and rewards program is another area that is relatively mature in this sector. Two-thirds of retailers offer a loyalty/rewards program with coupons and redemption codes. That's twice more than in other sectors.

Local focus and single-channel still dominates

Fulfillment capabilities are most mature in Turkey, where nine out of ten retailers offer shipment tracking. Moreover, three-quarters of all Turkish players offer dynamic shipping information based on customer preferences, with real time updates of the shipment status. In other countries, only one in five retailers offers this service.

Multi-channel fulfillment is relatively immature in the general merchandise sector. Only a third of players offer consumers the chance to pick up products from the store, and only a quarter offer the possibility to return products to the store. In addition, only one in six general merchandise retailers offers the ability to check online product availability.

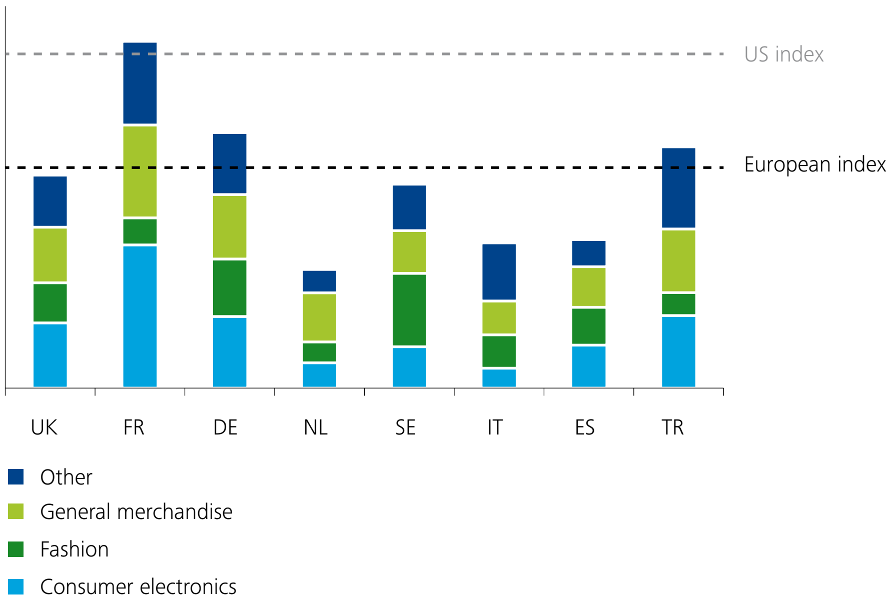
The general merchandise sector is also very locally oriented. Only 20% of all players ship products globally, half of them are UK players. Boots UK Ltd is a good example of localized promotions combined with a function to switch easily to other country websites.

UK driving innovative apps

The UK takes the lead when it comes to innovating in the general merchandise sector. Nearly all assessed retailers provide a mobile app and three-quarters support the purchase of products through this app. Debenhams is a good example. Its app allows customers to scan bar codes in-store and conduct online price checks to help them look for other cheap deals and promotions. There's also the option to share these finds with friends.

The UK is also pioneering the area of rich content, with half of retailers offering highly valued content through store blogs. Tesco is a prime example because its website mixes products with special offers and advice on subjects such as cooking and pregnancy.

Figure 4: Recommendations capability by country



Mobile commerce

The customer experience is changing as consumers are becoming more and more connected. Currently, over 85% of consumers use their mobile to access the internet on a daily or weekly basis. They expect to be able to shop anytime, anywhere. Consumers are also becoming more demanding. In fact, 36% of consumers would like to access product information when in store by scanning product barcodes[5].

UK and France lead the way in mobile commerce

Retailers in the UK are most mature in mobile commerce, followed by France and Italy. However, barcode scanning has found its way into only the UK and France. Surprisingly, none of the Turkish retailers in our research offer mobile store navigation. This could be explained by Turkey's high pure play percentage and the fact that traditional retailers have just started out on their eCommerce journey.

German retailers offer very limited sharing options via e-mail and social media. This is in accordance with research[6], which concludes that German consumers are least likely to trust social networks to learn about products or brands. Italy's third place in mobile commerce is not surprising as the country has the highest smartphone penetration in the world, even topping the US.

5 Deloitte Research, State of the Media Democracy, 2011

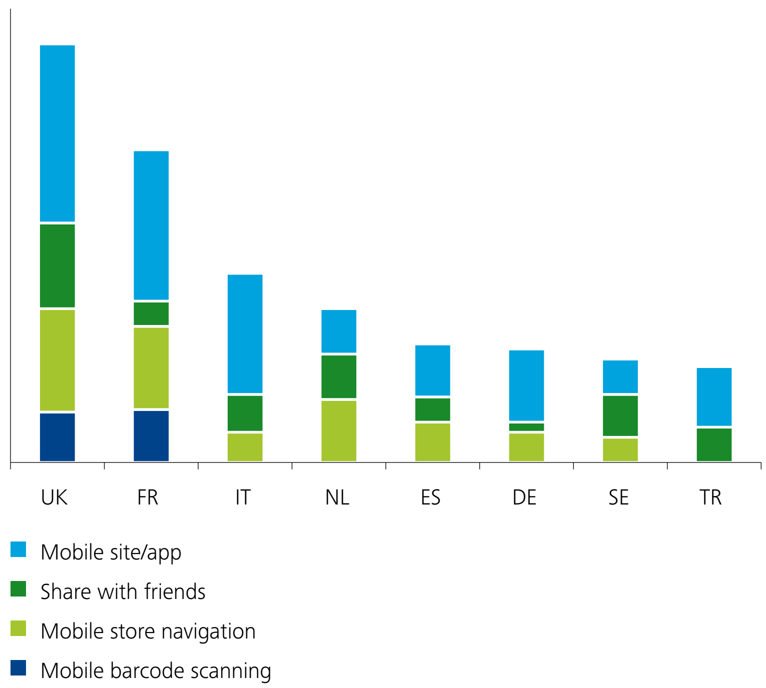
6 eMarketer, 2012: Globalizing Ecommerce: What US Retailers Need to Know About Entering Foreign Markets

Consumer electronics can do better

The maturity of retailers in mobile commerce is split between those with advanced capabilities and those with almost no mobile commerce capabilities. Our research shows that retailers in the fashion and general merchandise sectors have adopted the most advanced aspects of mobile commerce, while consumer electronics retailers have the most room for improvement.

In general merchandising, UK retailers have the greatest maturity, with retailers such as Debenhams, Tesco and Argos providing mobile commerce support. Debenhams is active in all of our four mobile dimensions: Mobile site/ app, Mobile store navigation, Mobile barcode scanning and Share with Friends. In the fashion sector, Zara (Spain) has good mobile capabilities, but Topshop's (UK) mobile app demonstrates best practice across all sectors. Barcodes can be scanned in-store for more information, prices and stock levels for all stores can be found, and products can be shared via social media. Moreover, customers can save their dress size for future use. In consumer electronics, Siba (Sweden) and Mediaworld (Italy) show good practice with their mobile apps.

Figure 5: Mobile capability by country

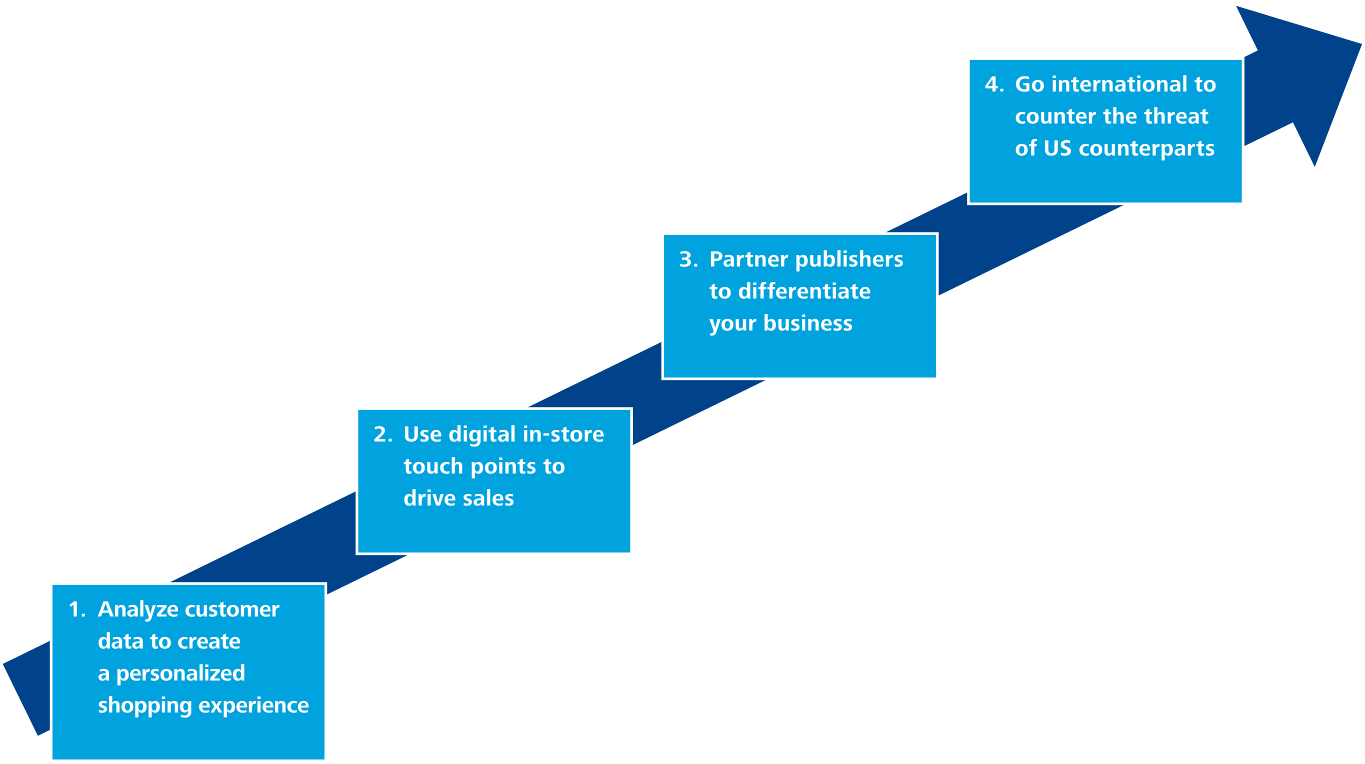


Powerful opportunities for growth

Customers have come to expect a seamless shopping experience combined with robust fulfillment. Retailers must deliver these capabilities to compete successfully in the highly competitive eCommerce market. Retailers have started to invest in social and mobile commerce capabilities, but development is expected to be gradual as the business cases for these initiatives continue to be challenged by executives. For 2012 and beyond, we expect four global trends to gain ground on the European mainland. Leading retailers can use these trends as differentiators to grow their current business.

1. Analyze customer data to create a personalized shopping experience

As customers interact with retailers across an increasing number of touch points, retailers have a great opportunity to better understand their customers. These days, customer information goes way beyond traditional browse and order history. It now includes geo-location, mobile app usage and social sentiment via unstructured data like Facebook posts and Tweets. By analyzing and using this mass of customer data, retailers have a unique opportunity to get closer to their customers and provide a personalized shopping experience with unique catalog views and targeted promotions.



2. Use digital in-store touch points to drive sales

Mobile commerce is undoubtedly poised to be a huge opportunity for retailers, but the proliferation of the smartphone could almost certainly increase sales in physical stores. Mobile devices give sales staff and customers access to incredible amounts of information and options that serve to enhance the shopping experience. They enable the two channels to become better aligned, resulting in the customer receiving the same recommendations and promotions both online and in-store.

Another welcome opportunity is the ability to create a store that serves as more of a showroom or virtual store for certain sectors or product categories. The store becomes the environment in which the consumer can experience selected products and brands. This would reduce the need to carry inventory for many product categories, benefiting retailers with smaller store footprints and lower inventory carrying costs. Retailers understand the importance of in-store mobility and have already started to experiment by offering in-store displays with online order functionality for home delivery.

3. Partner publishers to differentiate your business

Both retailers and magazine publishers have been looking to grow in the profitable online fashion retail segment. Online retailers are increasingly using magazine-style articles and lookbooks to differentiate themselves in the crowded online retail marketplace. Magazine publishers have been looking beyond advertising to increase their revenues by seeking eCommerce partnerships and acquisitions. With US and UK fashion retailers leading the way, retailers can join forces with publishers to create a seamless magazine-style shopping experience targeted at specific customer segments.

4. Go international to counter the threat of US counterparts

US retailers are targeting the European mainland. They are also growing faster in Europe than European retailers, so they are a real threat to domestic markets. However, as cross-border delivery becomes more common and logistic service providers offer integrated services, international expansion is within easy reach for a growing number of retailers. However, beyond branding and range, retailers must deal with a different online shopping maturity across Europe. As our research shows, there are major differences in shopping, fulfillment and innovative capabilities on offer, and this heavily influences local customer expectations.

Conclusion

Some of the leading online retailers in Europe may have caught up with their US counterparts. However, overall, European online retailers have more than enough challenges to overcome. Customers have high expectations set by the digital leaders, so retailers need to step up to the plate if they want to compete successfully in this dynamic marketplace. And, with web technology moving in-store, retailers have lots of opportunities to improve customer experience across channels. Therefore, they must balance their investments between bricks-and-mortar and online channels.

About Deloitte Online Business Innovation

Deloitte's Online Business Innovation group helps leading brands and retailers to grow their online business by using data-driven strategies and by driving end-to-end transformations.

Strategy, Operations & Assurance

Our core services are based on three pillars:

- Strategy: Companies in the digital age do not need isolated online strategies but business strategies that deal with the impact of selling online. This translates into market & channel strategy, competitive assessments and IT strategy.
- Operations: The key to being successful online is to align all required capabilities, from providing an online storefront to conducting fulfillment and operations. Key capabilities including eCommerce package selection and implementation, customer analytics, CRM integration and supply chain design.
- Assurance: Data is key to creating value in the digital age. This requires protecting your data, setting up security and safeguards for digital attacks, guarding the privacy of consumer data and auditing online services.

Leader in Global Commerce

Deloitte has been ranked as a Leader in Global Commerce according to Forrester Research[7]. Deloitte's strength in eCommerce and multi-channel is recognized as combining a breadth of strategic services with strong program executing capabilities.

For more information: **www.onlineinnovation.nl**

7 The Forrester Wave™: Global Commerce Service Providers, Q1 2012

Appendix: Deloitte eCommerce assessment methodology

Deloitte's eCommerce assessment benchmarks the top 200 online retailers[8] across eight European countries. Deloitte's methodology uses a framework of over 140 measurable and consumer-facing business capabilities to assess a retailer's online maturity. A maturity score on a scale of 0 to 12 was assigned to each. Scores for each retailer's website are based on current consumer expectations and existing capabilities in the market. Deloitte used its business knowledge to assign maturity-level descriptions to each capability score to provide a guide for assessment (see Table 1).

Using this methodology, benchmark data has been gathered for seven market sectors: Fashion, Consumer Electronics, General Merchandise, Food, Media, Office Supplies and Specialty. Analysis of retailers in the three biggest sectors is included in this white paper.

Table I. Maturity-level criteria

Maturity Level	Score	Explanation
Does not exist	0	Functionality is not present
Functional	1-3	Functionality exists at a basic level
Competitive	4-6	Some advanced functionality exists within the capability
Advanced	7-9	Almost all advanced functionality is offered
Best in Class	10-12	Leading practices and all advanced functionality within the capability are offered

8 Based on Internet Retailer and local sources such as Twinkle 100 (Netherlands), Distanshandel.se (Sweden)

The Deloitte eCommerce assessment results for each category identify key areas where eCommerce leaders differentiate themselves from their competition and score much higher than average. Examples of such differentiation categories include "Shipping & Fulfillment," "Social Networking," "Recommendations," "Multi-Channel Support" and "Mobile Commerce".

Table II. eCommerce Assessment categories

Category	Category description
User experience	Retailers provide a well-performing and accessible user interface and respect customers' privacy and security
Product search/ selection	Product search, search results, and search result filtering capabilities are efficient and effective
Catalog	Retailers' product catalog information is well structured and provides a rich experience
Shopping cart	Customers are able to view pricing, check product availability and send/share product information to others
User management	Customers are provided functionality to manage their user information and preferences
Recommendations	Users are offered interactively relevant products and recommendations
Place order	Retailers offer features before and after placing the order to provide the customer with the desired information and functionality necessary to complete the transaction
Manage orders	Customers can access their past orders and current order tracking
Payment information	Extensive payment options are offered to the customer. Clear and concise information about payment methods are available
Shipping details	Retailers offer multiple shipping options with detailed explanations and associated dates
Shipping & fulfillment	Retailers offer the customer shipping flexibility and transparency to shipping and fulfillment status
Customer service	Retailers provide users with multiple ways to get help and contact customer service
Globalization	Retailers cater to global users by providing them with localized experiences
Multi-channel support	Retailers integrate various channels to enhance the user experience and drive sales
Social networking	The site interacts and supports pre-existing social networks with user communications and media advertising
Mobile commerce	Retail site functionality is available on user mobile commerce devices with various on-location capabilities
Rich content	Retailers integrate multi-media and provide extended content such as virtual models, store blogs and digital magazines

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