Let's Talk Business
Ideas for Expanding Retail and Services in Your Community

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The Internet as a Retail Sales Tool:
The Growth of E-Sales

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Retail sales have experienced a tremendous evolution over the past 50 years. In the 1950s, downtowns were the center of retail sales in communities. People visited downtown to shop at a variety of businesses for shoes, clothes, hardware, and services such as banking. In the 1960's, a group of retailers began to offer retail products in a large department store format. These retailers focused on giving the customer the opportunity to save time and money by making all of their purchases in one place. As Wal-Mart, K-Mart, Target and shopping malls grew in the 1970s and 1980s, downtown retail sales experienced a decline.

In the late 1980s and 1990s television home shopping networks and warehouse clubs grew in popularity. People found stay at home convenience in seeing a product on television, calling a toll free telephone number and making a purchase. At the same time, warehouse clubs such as Sams Club and Costco began to grow. For an annual fee, a customer received the opportunity to purchase retail products in bulk quantities at reduced prices.

The Emergence of Internet Sales

In the late 1990s, Internet websites began to focus on retail sales. For example, in 1994 one-percent of automobile dealers in the United States had their own web site. This figure reached 83-percent in 2000. It took cable television 25 years, and the personal computer seven years to reach 10 million customers. The Internet reached 10 million customers in 6 months.

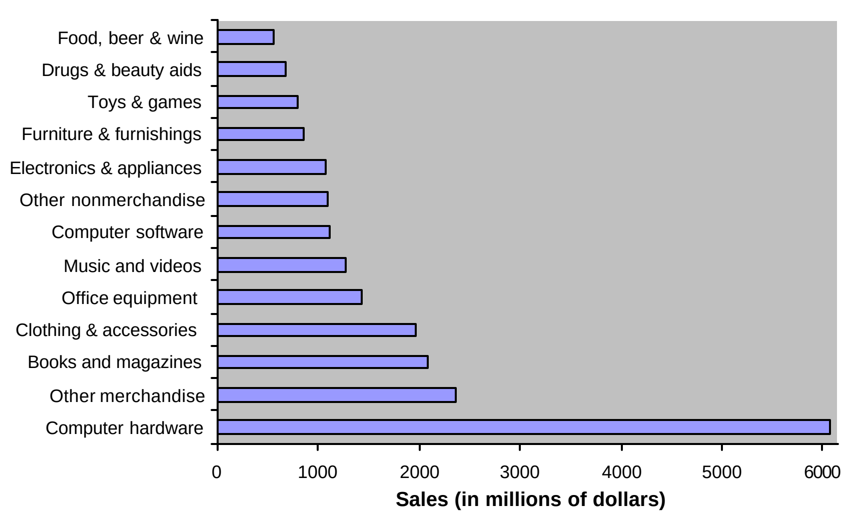
The number of people using the Internet in the United States rose from 32-percent in 1998 to 44-percent in 2000. The increased use of internet took place in both rural and urban areas. In rural areas Internet usage increased from 22-percent in 1998 to nearly 39-percent in 2000. Over 30 percent of internet users in a 2000 survey indicated that they shopped for retail goods online. The Gartner Group projects that 75-percent of U.S. households will be linked to the Internet by 2005. The Internet provides both urban and rural residents the opportunity to shop in a virtual mall with companies located throughout the world and willing to deliver products to their door.

Types of Internet Sales

The most popular online purchases (e-sales) include computer equipment and software, books, clothing, CDs, office equipment/supplies among others. However, Internet sales cut across all retail categories. The following graph presents US Census Bureau data on E-commerce and mail order firms by merchandise line (excluding store based retailers). These Non-store Retailers include catalog and mail order operations as well as retail sites selling exclusively over the Internet . All together, these Non-store Retailers account for 75-percent of retail e-sales.

While computers account for the biggest share of online expenditure (26% in 1999), their lead is likely to be reduced by faster growing sectors, including gro-

E-Commerce Sales in 2000:
Electronic Shopping and Mail-Order Houses



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ceries, which has the potential to become the most important sector in the long run.

While e-sales provide opportunities in most retail sectors, they still comprise a very small part of the retail industry. In 2000, it accounted for only .9-percent ($29 billion) of total retail sales. One of the greatest barriers to online shopping is the perceived high cost of shipping, a factor that often leads to abandoned "shopping carts."

The Internet Shopper

While 60-percent of the US population is online, usage varies by gender and age. Internet familiarity is perhaps the biggest factor influencing people's propensity to buy online, but cultural factors regarding credit card use and the local mail order infrastructure also have an impact. Females are more likely than males to use the internet daily. Seniors came late to Internet but are now avid shoppers. Teens make fewer online purchases possibly because of limited access to credit cards.

Online buying rates are strongly linked to expertise. Datamonitor's Impact 2000 consumer survey revealed that while only 25% of "starters" (those who've used the Internet for less than 8 weeks and typically use it 2 to 4 times per week) are likely to buy a product they've researched online, 70% of "experts" (those who've used the internet for over 18 months and typically use it more than once a day) do so. This indicates a strong pent-up demand for online shopping, and suggests that the long-term prospects for "e-tailing" are very good.

At home access is also seen as critical to the development of online shopping. Although access to the Internet at work is now common, it is used mainly as a reference tool and 80-percent of online shopping and banking takes place at home. Approximately 83-percent of highest socio-economic bracket are connected to the Internet compared to only 35-percent of the lowest. However, the growth of Internet usage within the highest income bracket is slowing while increasing for the middle and lower brackets. Older Americans are least likely to be on the net, but as a group, have shown the highest rates of growth of Internet usage. Rural access has also increased rapidly in recent years.

Growth of E-Sales

Despite the recent news about the dot.com bomb, the growth of Internet retail sales cannot be overlooked. Forbes Magazine estimates indicate that U.S. e-sales will reach 34 billion this year and will continue to grow rapidly. E-commerce is growing at 35-percent a year, whereas traditional retail growth is 4 to 5 percent a year. NetRatings, Inc. estimates that traffic on the internet doubles every 90 days. The increase can be attributed both to "push" factors like falling access, and hardware costs and improved Internet technologies and to the "pull" of improved sites which can now compete in both price and convenience with traditional "bricks and mortar" retailers.

In 2000, over 200 internet companies closed their doors. These companies could not meet expectations in an overcrowded market that required enormous investments in technology and skills. Owners of failing internet–based businesses indicated that faulty business models, technology, management, lack of focus, advertising waste, and slow response by users were the major reasons for their lack of success. The key ingredients in a successful e-sales business include ongoing training, infrastructure support, business basics, and marketing. A subsequent issue will focus on how businesses can use these key ingredients to enhance e-sales.

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