

LET'S TALK BUSINESS

Ideas for Expanding Retail and Services in Your Community

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E-Commerce and Retail Major Changes are Underway

by
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For years, local retailers have lived in fear of Wal-Mart and its \$147 billion in annual sales worldwide. Even K Mart, with annual sales of a mere \$34 billion, deserves a lot of attention. However, there is a "new kid on the block" who isn't getting much attention from local retailers. You guessed it, e-commerce.

By one estimate, 17 million households will spend over \$20 billion shopping online in 1999. That is more than double the 8 billion spend online in 1998. Within five years, online sales are expected to exceed Wal-Mart's 1999 sales. By 2004, online shopping is expected to increase to \$187 billion annually.

Is it any wonder that Wal-Mart is investing millions in developing their own online stores? And, they aren't alone. Recently, Ford Motor Company announced a major joint venture with Microsoft to develop a state-of-the-art new car sales website. Soon thereafter, General Motors announced its plans to buy back retail dealerships in order to "get closer to the dealer network." Do you think new car dealers are getting a bit nervous?

Are there some things happening that all retailers should be noticing? The following realities and predictions reported by CyberAtlas¹ provide several opinions on the state of e-commerce, some likely futures, and its potential impact on all retailers.

While the projections vary, it is undeniable that e-commerce is becoming an increasingly significant competitor for the retail dollar.

Historical Perspective

E-Retail Report² provides some useful historical perspective and insights regarding the diversity in opinions regarding internet sales projections.

- ✓ In 1997, only 6.8 million or 3.2 percent of Americans (Aged 14+) purchased goods online.
- ✓ By 1999, this should exceed 38 million and 17 percent of the population.
- ✓ By 2002, over 67 million Americans (30%) will shop online.
- ✓ Online sales have increased over 600% since 1997.
- ✓ The average annual online expenditure per buyer will be \$479 in 1999.
- ✓ The average annual online expenditure per buyer is projected to double to \$976 in 2002.



The eRetail report includes a list of fifteen different e-commerce sales projections for 1999. Estimates range from \$4.6 billion (Direct Marketing Association) to \$36 billion (Boston Consulting Group). While the range of sales estimates is significant, industry experts agree that e-commerce will continue to make major changes to the retail environment.

Who is Shopping on the Web?

Studies from Nielsen Media Research and CommerceNet report that:

- ✓ 92 million North Americans now use the Internet
- ✓ The number of people making online purchases increased to 28 million in 1999, an increase of 40% over 1998.
- ✓ The number of female consumers online jumped 890 percent in the first nine months of 1999.
- ✓ 60 percent of the current Internet users have used the Web to shop.
- ✓ 46 percent of the 92 million Internet users in North America are women.
- ✓ 13 percent of online buyers made their first Internet purchase in the preceding month.

Household Spending On-Line

Forrester Research has studied household e-commerce trends and predicts the following:

- ✓ More than 17 million households will shop online by the end of 1999.
- ✓ An estimated 7 million consumers will make their first online purchase in 1999.
- ✓ Average online spending per household will total \$1,167 in 1999.
- ✓ Online spending is expected to grow \$3,738 per household by 2004.
- ✓ By 2004, almost 50 million US households will spend more than \$184 billion online.

As we look ahead to the holiday season, we can expect new records set in on-line shopping. If 1999 is like 1998, significant e-commerce activity can be expected in the following categories:

TOP 10 PRODUCT CATEGORIES PURCHASED ON THE WEB FOR THE 1998 DECEMBER HOLIDAYS

Categories	% of Web Buyers
Books	34.1%
Music	31.7%
Travel Services	14.6%
Toys	12.2%
Software	9.8%
Clothing	8.5%
Jewelry	8.5%
Consumer Electronics	8.5%
Food	6.1%
Computer Hardware	6.1%

Source: InfoBeads Holiday e-Commerce Survey

Growth in online sales will impact retailers from regional shopping malls to Main Street. The ability of traditional retailers to participate in this e-commerce revolution will be a major factor in their success and continued operation.

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- 1 http://cyberatlas.internet.com/big_picture/demographics/article/0,1323,5901_150211,00.html
- 2 http://www.emarketer.com/estats/sell_cons.html

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