



The Countries

Australian E-Tailing Picks Up Steam

Despite ongoing challenges, Australian retailers are accelerating the speed of their online initiatives as they respond to consumer demand and investor pressure.

By Steve Ferguson, National Director, Retail & Consumer Product, Australia

Many Australian retailers believe the online channel represents an opportunity to expand their presence outside Australia.

Ask most Australian retailers what is at the root of their e-business strategy and the likely answer will come in the form of one simple word: growth. And it's no wonder. A significant portion of the Australian population is ready, willing, and able to shop online. More than 50% of Australian households have PCs, with 39% having Internet access. Indeed, more than 50% of Australians over 14 years of age have accessed the Internet, a fact that bodes well for Australian retailers as they begin to accelerate the speed of their e-business initiatives.

The extent of online strategies varies considerably among Australian brick-and-mortar companies. Some of Australia's largest retailers, such as Coles Myer and David Jones, have embraced the Internet as an important alternative distribution channel. The scale on which Coles Myer launched its online presence reflects the company's belief in the medium, as well as its response to the growing consumer demand and pressures from the stock market. The state of a company's e-strategy has become an important factor in the eyes of the Australian investment community.

However, the investment community's approach to B2C e-commerce does seem sensible. On the one hand, the market has put pressure on companies to develop their

etailing strategies. On the other, investors have become less tolerant of under-performing B2C businesses and far more interested in return on investment and profitability. The investment community has also begun to focus closely on the cash-burn rate of pure-play Web etailers. Funding has become tighter, and a number of dot-com start-ups, such as buy.com.au and The Spot, have closed up shop during the past year.

Smaller brick-and-mortar retailers have taken to the Net in varying degrees, with apparel retailers at the less-enthusiastic end of the spectrum as they move cautiously into the world of e-business. They're not alone. While there's clearly a healthy appetite in the Australian business community for testing the online channel, there is also an underlying conservatism, which has led some small and medium-sized operators to take a wait-and-see approach when it comes to e-commerce.

Start-up etailers have gained a significant presence in the market. Operators such as Travel.com.au, Wineplanet.com.au, and Greengrocer.com.au appeared on the scene and have stood the test of time, so far. Some of these pure-plays have learned the value of working in concert with well-established traditional retailers. For example,

The investment community has begun to focus closely on the cash-burn rate of pure-play Web e-tailers. Funding has become tighter, and a number of dot-com start-ups have closed up shop during the past year.

Wishlist, an Australian-based online gift store, has developed high-profile alliances with brick-and-mortar retailers such as Country Road Limited, a clothing retailer with stores in Australia, New Zealand, and the U.S., and BP Australia, a gas/petrol station with convenience stores attached.

Growth drivers run the gamut

Driving e-business growth are a number of additional factors that go beyond consumer and investor demand. For one thing, many retailers believe the online channel represents an opportunity to expand their presence outside Australia. And for some operators, it is likely that e-business represents a defensive strategy, since much of Australians' online buying is being done on U.S.-based sites. But with the fall in the Australian dollar, this is now much more costly.

A largely positive climate — characterized by governmental support, a favorable regulatory environment, an increasingly sophisticated telecommunications business, and a well-established infrastructure — should help nurture the nascent Australian e-tailing market. However, this positive environment is impacted by a complex, punitive tax regime with a new goods-and-services tax and potentially hostile investor sentiment.

At the same time, there remain a number of hurdles that businesses must surmount in order to succeed at the e-tailing game. Consumers continue to be concerned about credit card security, despite their increasing interest in online shopping. In an effort to reassure consumers, e-tailers are addressing security concerns in a vari-

ety of ways. Most will emphasize their use of an Internet security firm, such as VeriSign, by prominently displaying the security company's logo on their site. Some automatically insure transactions up to a certain amount, say, \$2,000 (Australian dollars). And others allow online buyers to phone or fax in their credit card information rather than require that it be given over the Internet.

Traditional retailers face unique issues, including effectively translating the brand online. The marketing manager for leading Australian retailer David Jones notes that having a leading retail brand "is a great corporate asset, but the challenge is in creating a seamless shopping experience for the customer between on and offline stores."

The costs associated with Internet access and distribution in remote areas have proved to be a barrier to B2C e-commerce growth in some parts of the country. Fulfillment costs in the e-grocery segment, in particular, also remain a significant challenge. Other companies, including Hillier, cite technical limitations, particularly the speed of the Internet, as a key challenge.

Executing the e-strategy

Many of the country's e-tailing models — whether pure-plays or traditional operators — focus on customization. Coles Myer, for instance, has launched a number of initiatives in terms of branding and product offerings that differ by region based on the company's understanding of customer needs in that area. Smaller retailers engage in customization to varying degrees.

Although the companies interviewed offered the same products online and in-store, the merchandise mix offered by traditional Australian retailers on their sites tends to be less extensive than that offered in their physical stores. Some retailers simply offer information; others provide a limited range of products such as gift vouchers, gift baskets, and accessories, though Dymocks, a book retailer, has an integrated product offering: books offered online are available at the store, and books not available at the store can be ordered online.

Pricing online is fairly consistent with that in the stores, and most e-tailers charge for delivery. Online specials and discounts are most likely to exist in segments such as airline tickets. Simon Hillier, general manager, content and marketing at Australian-based Travel.com.au, points to the importance of being first to market with special offers. "Traditional travel agencies have to rely on newspapers and these offers get published days later," he says.

Retailers' marketing efforts include store signage that promotes the Web site, promotional brochures, delivery vehicles, and in-store Web access through terminals. Customer communications vehicles such as newsletters — both paper and e-mail versions — are also being used with increasing frequency. A handful of pure-plays, such as Dstore and Wishlist, have managed to build strong brand awareness through extensive spending on offline advertising campaigns. And some companies, such as Dymocks, have established

affiliations with other e-businesses in an effort to drive customers to their site.

Customer loyalty initiatives vary among the major retailers and the smaller brands. Coles Myer has an extensive database of customer intelligence from its various loyalty efforts such as shareholder discount schemes and fly-buys. The company views this database as a significant strength and utilizes data mining to analyze the information and drive decision-making. Smaller retailers have different degrees of sophistication in their loyalty programs and level of customer understanding. Interestingly, while the majority of e-tailers stick to email reminders and simple loyalty programs to entice customers to return to the site, almost 50% of consumers say free shipping of products would encourage them to come back.

A variety of distribution models are in place. Many companies are utilizing Australia Post, the country's postal service, which has promoted its ability to act as a delivery point for e-tailers. In addition, BP has undertaken an initiative to establish itself as a pick-up point for merchandise purchased from e-tailers (no doubt hoping consumers will also buy at the BP convenience store while picking up their online orders). Some retailers have begun using store pick-up models or are converting existing stores to distribution centers.

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Australia: Wired Consumers Take to the Net

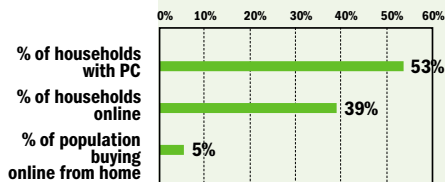
As Australian consumers venture onto the Web, they're buying more, but many still worry about credit card security and the inability to see and touch products.

Australian consumers have discovered the virtues of online buying and are growing more comfortable with the channel. Internet shopping has risen dramatically over the past year and will continue to grow in the coming year. Among Net users surveyed, 58% have purchased an item in

year. Only 2% have made fewer transactions. In addition, more than three-quarters of buyers have increased the value of their online spending.

Several issues are expected to impact the rate of e-commerce development, however. Concerns about the use of credit cards online — cited by 63% of respondents — leads the list of reasons why some consumers will not make online purchases. Most online buyers said they are aware of features such as browser encryption capability and digital certificates that point to online security. The benefit of promoting

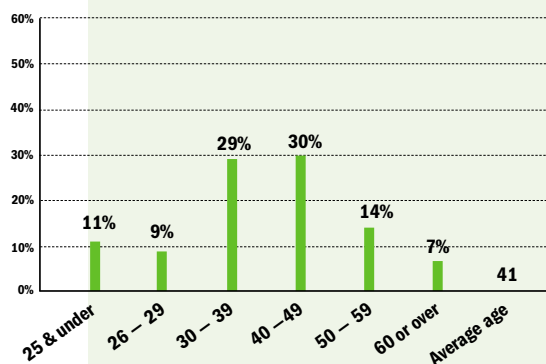
% of Households with PCs



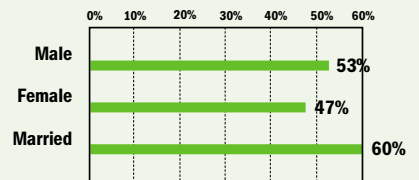
Source: IDC

the past 12 months and 82% expect to make an online purchase in the coming year. And close to eight out of 10 said they have increased the number of items purchased online, compared with the prior

Age of shoppers



Demographics of online buyers



these features would be felt most with non-buyers who are fearful of online credit card transactions. Online security is not the only concern among Australian Web users. Almost as many (61%) said they will not buy over the Net because they prefer to see and touch products first. Other reasons include not having a credit card, a lack of

confidence in online merchants, and a lack of information on which to base a purchase.

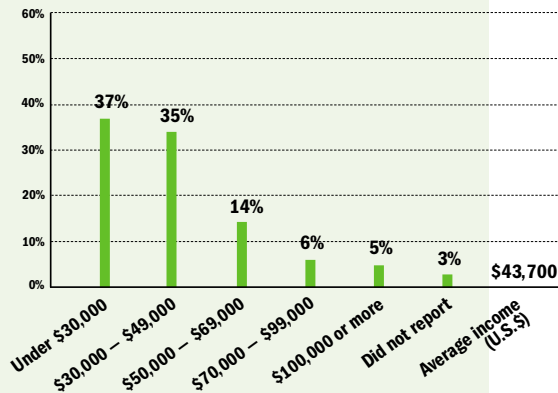
While these concerns will certainly hamper the growth of e-commerce somewhat, they're unlikely to stop it. A high degree of technology readiness should help keep the trend toward online buying going strong. International Data Corp. (IDC) estimates that 53% of Australian households currently have a PC; 39% are connected to the Internet; and 960,000, or 5% of the population, make online purchases from their homes.

Not only is online shopping activity in Australia increasing, it's also becoming more varied. Many shoppers now typically visit and purchase from a wide variety of Web sites. About one-third of online buyers said they had purchased from five or more sites in the past year, averaging four sites. These buyers have made, on average, nine online purchases during the 12-month period and 24% made 10 or more separate purchases. It's expected that online buyers will venture onto more and more sites as their comfort level with the channel grows.

The annual value of online purchases averages \$800, but 17% of Australian online buyers said they spent \$1,000 or more in the past year, indicating that a significant group of buyers is spending large amounts online.

As Australia's wired population becomes increasingly comfortable with online buying, retail stores can expect to feel the impact. Among those surveyed, 56% said they shop at brick-and-mortar stores less often. What's more, respondents indicated that 57% of their online purchases are sales

Annual household income of buyers

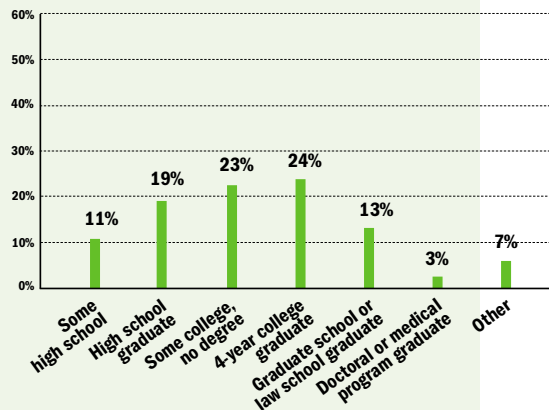


that would have otherwise been made in-store. This suggests that online buying will have a pervasive impact on physical stores as foot traffic in stores and malls is reduced.

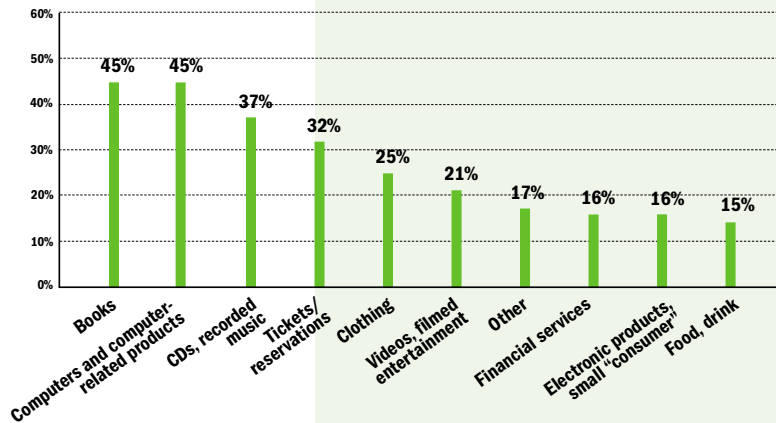
However, it's also important to note that while the majority of the country's Web buyers shop with the intent to purchase, only 37% of their shopping occasions actually result in an online purchase. In fact, one-quarter of the online trips result in a purchase at a retail store; 10% result in a purchase being made by phone or mail order; and 28% result in no purchase at all.

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Highest educational level achieved by highest income in household



Top 10 purchase categories

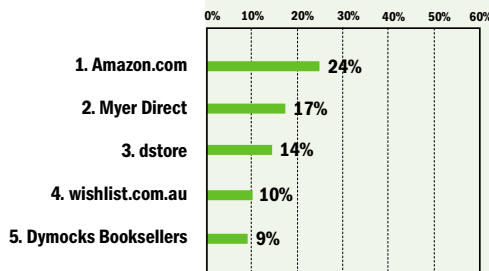


Although deterred by the costs of shipping, online respondents do not consider problems related to fulfillment and customer service as significant enough to stop them from shopping online.

Books top the shopping list

Books and computer products top the list of product categories purchased by Australian Web buyers, each bought by 45% of respondents. Other significant categories include CDs/music, at 37%, and clothing, at 25%. Some 21% bought videos; 16% bought consumer electronics; 16% have used the Web for financial services; 15% purchased food and drink items; and more than 10% bought health and beauty items, flowers or toys online in the past 12 months.

Favorite sites for purchasing



Consumers' favorite sites clearly reflect their category choices. Leading the pack is Amazon.com, which was named by 24% of online buyers. Next in order are Myer Direct, the online operation of Coles Myer, Australia's largest brick-and-mortar retailer, named by 17%; Dstore, an Australian online department store, cited by 14%; Wishlist, an Australian online gift store, named by 10%; and Dymocks, a Sydney-based clicks-and-mortar bookseller, named by 9% of Australian Web shoppers.

What drives consumers to these sites? Item selection and competitive prices are the primary factors. More than eight out of 10 Australian Net shoppers expect a site to have the same products as in the store or catalog, and 47% expect these to include online bargains. In the clothing, consumer electronics, toys, and health and beauty sectors, two-thirds of buyers expect online items to cost less than the same items in the store or catalog. The one exception is food and beverages, where just as many buyers (43%) expect prices to be the same as those who expect them to be lower.

Interestingly, food and beverages is emerging as a strong category among Australian Web shoppers, leading in the average number of items purchased and the amount of spending. Online buyers made eight food and beverage purchases online in the past 12 months, compared with four for health and beauty products, three for clothing, three for toys, and two for consumer electronics. The frequency of food and beverage purchases is reflected in the high total annual purchase value, at \$609 vs. \$449

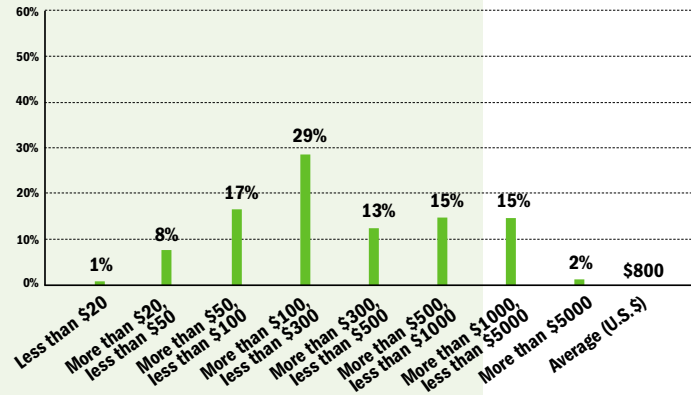
for consumer electronics, \$247 for health and beauty items, \$170 for clothing, and just \$95 for toys. And 68% of respondents expect to increase their online spending for food and beverages. More than half of food and beverage buyers gave the highest satisfaction rating for the overall online shopping experience and 69% gave high marks for product quality. Food and beverage e-tailers also did well in areas such as customer service, product selection, and ease of use.

The health and beauty sector also shows potential for future development, with 55% of online buyers expecting to increase the value of their purchases in this category in the coming year. Satisfaction levels were fairly high, with 53% awarding the highest marks for the overall experience and 60% giving high marks for product quality. In addition, e-tailers in this sector received good scores for ease of use and item selection.

The apparel category is emerging among Australian Web shoppers, with 13% making five or more online clothing purchases in the past year. Some 53% expect the value of their online clothing purchases to increase in the next 12 months. However, customer satisfaction with online apparel buying appears to be average at best. Only 40% of clothing buyers gave the highest satisfaction rating for their overall online shopping experience.

Australian consumers were even less pleased with their online electronics buying experience. Only one-third gave the

Trends in spending

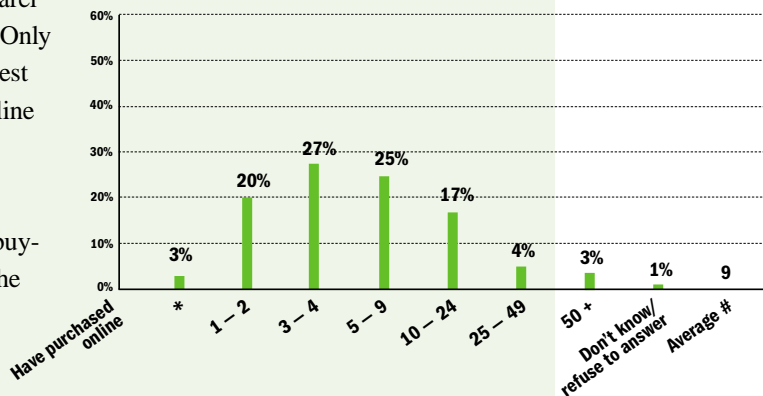


highest marks for overall shopping experience, although, again, about half said the sites did well with product quality. Satisfaction with consumer electronics e-tailers fell off when it came to factors such as shipping costs, special offers, price and customer service.

The Australian online toy business is getting off to a slow start, with almost half of buyers expecting the value of their online toy purchases to stay the same in the next year, and 13% saying it will decrease.

Trends in purchasing

* Only purchases were financial services, travel tickets, reservations and/or magazine subscriptions.



More than eight out of 10 Australian Net shoppers expect a site to have the same products as in the store or catalog, and 47% expect these to include online bargains.

However, in what may seem like a contradiction, this apparent lack of enthusiasm for online toy shopping belied higher-than-expected satisfaction ratings. Half of toy buyers awarded the highest marks for the overall experience, and more than half rated sites highly for ease of use, product quality, and customer service.

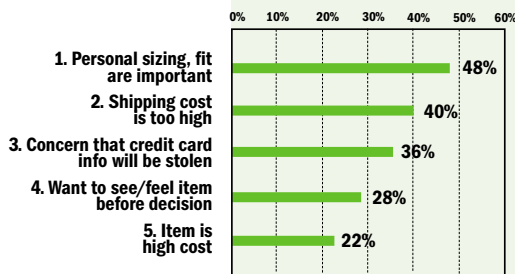
Focus on the future

What will it take to keep Australian consumers coming to the Web and buying? Lower prices and lower shipping costs are the key factors, with more than half of

Lower shipping costs will not only attract more online buyers, but will likely keep them shopping as well. Three-quarters of Web buyers have abandoned their online shopping carts, with 38% citing high shipping costs as a key reason. In addition, 40% said they abandoned their cart because they only wanted to check prices.

Although deterred by the costs of shipping, online respondents do not consider problems related to fulfillment and customer service as significant enough to stop them from shopping online. Half of Australian online shoppers have experienced no problems related to fulfillment or customer service. And of those who have had problems, 73% said it will have little or no effect on their online shopping, although 21% said they will no longer purchase from an individual Web site.

Turnoffs



buyers citing these as improvements they'd like to see. In addition, 49% said free shipping would get them to visit a site more often, with loyalty programs a distant second at only 17%. Consumers also mentioned a total guarantee of security and privacy, wider product selection, and more information about products as improvements they'd like to see in Internet shopping.

Brazilian E-Tailing: The Promise of Things to Come

Despite consumer concerns about security as well as business and regulatory obstacles, Brazilian companies are readying themselves for a bright e-commerce future.

By Sergio Romani, Director, Retail & Consumer Product, Brazil

The competitive battle that ensued following the launch of the first free ISP service in late 1999 did much to build awareness of the Internet among Brazilians.

Brazil boasts a substantial economy and a fair number of wired consumers, but the challenges facing e-tailers are monumental and include a weak infrastructure and telecommunications industry, a lack of governmental regulation, and a significant language barrier. Getting past these roadblocks will be the key to the future of B2C e-commerce in Brazil. Unfortunately for businesses, many of these factors are out of their control.

Brazilian e-tailers can pin their hopes, however, on the potential for consumer demand to push the government and the telecommunications industry to step up the pace at which they address some of the critical inhibitors to online shopping. While only 1% of Brazilian households are online, there's agreement that the growth rate over the next five years will be exponential, driven in part by the fact that most ISPs now offer free Internet service.

The competitive battle that ensued following the launch of the first free ISP service in late 1999 did much to build awareness of the Internet among Brazilians. The problem for e-tailers, however, is that

access and awareness are not translating into online shopping. Thus far, Brazilian consumers have not demonstrated a high level of interest in e-commerce, although most observers expect that to change as Brazilians become more comfortable with the Internet.

Why the reluctance among the country's wired population to buy on the Net? Technology barriers are key factors, with low penetration rates for PCs, telephones and cable TV. In addition, credit card use is low, with only a small percentage of consumers having at least one card. Of those who do carry a credit card, many worry about security on the Internet. And with good reason, as the incidence of secure servers is low. Retailers agree that this is a significant problem that must be overcome if e-commerce is to grow. To tackle the issue Banco Bradesco, one of Brazil's largest banks, launched its own portal that allows consumers to shop at a number of different e-tail sites. The bank handles the transaction and takes responsibility for the security of the credit card purchase. Other banks are expected to follow suit.

Credit card use is low, with only a small percentage of consumers having at least one card. Of those who do carry a credit card, many worry about security on the Internet.

It's also clear that Brazilian e-tailers must address the issue of language on the Internet. The bulk of the country's Web sites are in Spanish, yet consumers have made it known that they prefer to access sites in Portuguese. Fixing this problem is certainly within the control of e-tailers and they would be remiss to ignore consumers' wishes.

The issue of infrastructure

The ability of companies to control other problems, however, is not so clear-cut. The country's unsophisticated infrastructure, for example, remains an enormous obstacle to e-business growth. The business environment in general is marked by a lack of efficiency and the postal service, which handles the bulk of e-commerce deliveries, is considered weak and inefficient, although recent investments in new technology may help remedy that.

Similarly, the telecommunications industry's infrastructure is weak and expensive, with limited DSL, ISDN and broadband services. However, there's some indication that these are beginning to grow as a result of privatization.

The government's role in e-business has been limited to date, and that's proved to be a problem. With little regulatory control, pirated software abounds, hackers have wreaked havoc, and support for e-commerce development remains low. The good news is that this appears to be changing, which will be a crucial factor for the future of e-business in Brazil. So far, legislative attempts to provide regulations relating to Internet security, privacy, and taxation have gone nowhere.

Despite the barriers to B2C e-commerce, Brazilian companies are rapidly launching sites in order to gain a presence on the Web so they're ready when the consumers arrive. Sectors such as auto retailing, banking, financial services and real estate have grown significantly on the Internet.

A number of Brazil's traditional retailers have launched online operations. For example, Livraria Siciliano, Brazil's largest bookseller, came early to the Net with its online site (siciliano.com.br) and boasts a wide product selection that includes computer

software, DVDs and VHS videos, and CDs, in addition to books. And the online store of supermarket operator Se Supermercados (sesupermercados.com.br) features an offering that consists of several thousand items ranging from fresh fruit and vegetables to health and beauty care to pet food.

It's expected that the country may see an increased number of pure-play start-ups due to the fact that the Internet is exempt from Brazilian law that prevents local or foreign companies from owning an interest in Brazilian media companies. This should make alliances between companies easier and open the way for venture capital firms to invest in entrepreneurial pure-plays. In addition, Brazil was not hit as hard by the dot-com shakeout that affected the VC market in many countries. Several pure-play e-tailers and portals secured large amounts of financing last year, although expectations are that the Brazilian venture capital market will begin slowing down a bit.

At this point, the chances of profitability any time soon for e-tailers — both brick-and-mortar operators and pure-plays — would seem unlikely. Costs, particularly in areas such as fulfillment and advertising, far outstrip sales. It's likely that e-tailers will begin to fall by the wayside if they can't reverse that trend sometime in the near future. Witness Super11.net, a portal offering free Internet service that closed its doors this past fall after less than a year in business. A disturbing note was the fact that the company was backed by Banco Safra, a well-financed Brazilian bank. If others fall victim to the same type of financial difficulties that haunted Super11, the availability of venture capital, not to mention the future of the free access model, are sure to be called into question.

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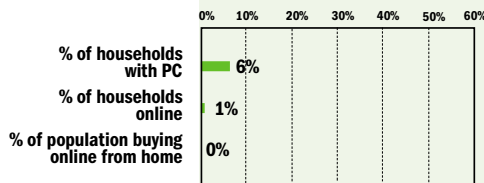
Brazil: Catching on Fast

They may be new to the Net, but Brazilian consumers have increased their online buying significantly, with rapid growth expected in the future.

E-commerce in Brazil is in the early stages of development. Only 6% of households have PCs, 1% with Internet access, and less than 1% of the total household population has purchased online. However, as this changes, online buying will become increasingly commonplace. Eight out of 10

the fact that many of the country's e-commerce sites are not yet operating with secure servers. More than two-thirds of Web users cited concerns about the use of credit cards online as the leading reason for not making online purchases. In addition, 55% said they prefer to see and feel products first. Other complaints included a lack of confidence in online merchants, the lack of a credit card, too little product information, and the length of time for the transaction process.

% of Households with PCs

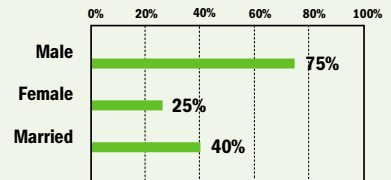


Source: IDC

Brazilian online shoppers saw both the number and value of their Internet purchases increase in the past year. Among Brazilian Web users, 55% have purchased an item online in the past 12 months, and 89% expect to shop the Net in the next year.

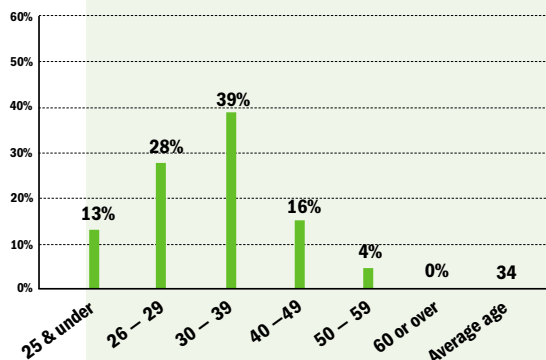
Those who aren't buying online point primarily to one key problem — credit card security, a fear that may be justified given

Demographics of online buyers



Reflecting the early stage of online shopping in Brazil, Web buyers typically visit and purchase from a select number of sites. Almost three-quarters of those who have made a purchase said they have bought from five or fewer sites in the past 12 months. And their spending levels are still fairly low, compared with more experienced Web buyers. On average, Brazilian shoppers made nine online purchases, with the annual value averaging \$493, while U.S. buyers made about 13 online purchases for an average value of \$896. Also typical of less-experienced Net shoppers, Brazilian online consumers prefer to shop at sites that specialize in the particular items they offer rather than broad-line retailers.

Age of shoppers

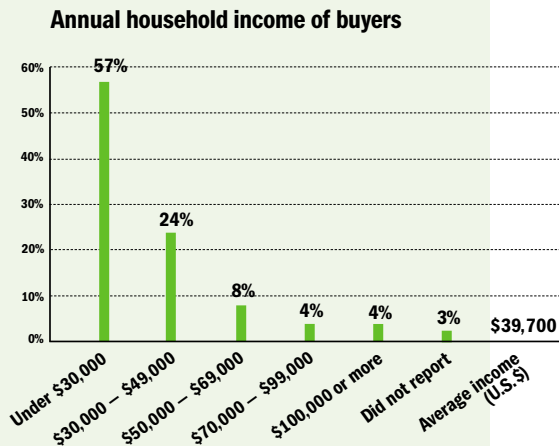


CDs and books dominate Brazil's Internet shopping lists, with 70% of buyers having purchased CDs/recorded music and 60% having bought books online. Other popular categories include computer products, videos, and consumer electronics. While tickets/reservations were purchased by just 10% of Web buyers, the category has shown good growth and appears to be an emerging opportunity in the Brazilian e-business market. Other growth opportunities include food and drink and flowers, which have made headway in the past year.

Food and beverages: Opportunity knocks

In fact, the number of online food and beverage purchases made in Brazil far outdistances purchases in categories such as health and beauty products, clothing, toys, and consumer electronics. Online buyers made almost six food and beverage purchases during the past 12 months, with an average annual value of just over \$400. And 72% of buyers expect to increase their online spending for food and beverages in the next year.

The online apparel sector remains quite undeveloped in Brazil. Only 9% of online shoppers made apparel purchases and the majority made just one or two online clothing purchases in the past 12 months. The average value of those purchases was only \$110, far below the amount spent on food and beverages and just edging out the value of consumers' online toy purchases. The good news is that almost three-quarters of respondents said they expect to increase the value of their online clothing

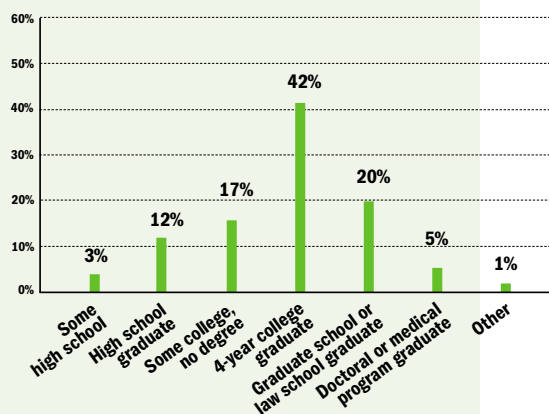


purchases during the next year. The biggest deterrent to apparel buying on the Web is the inability to try on items for proper sizing, a factor cited by 60% of Brazilian respondents.

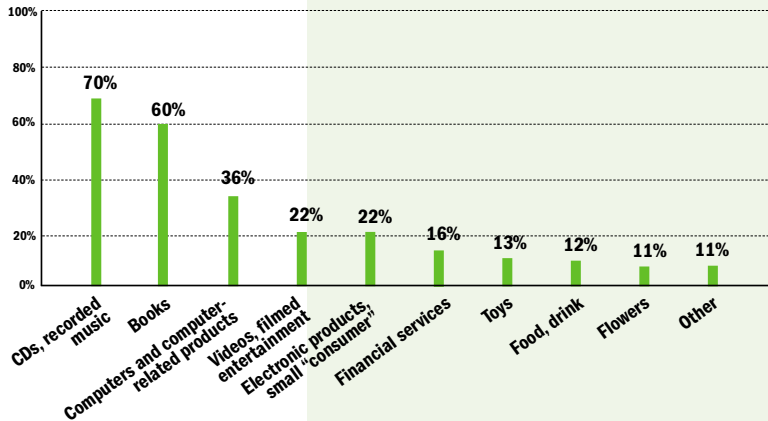
In the consumer electronics sector, the average number of online purchases was low, at just two in the past 12 months, yet the value of those purchases, at \$332, was second only to food and beverages due to the products' higher price tags. As with apparel, consumers expect to increase the value of their online consumer electronics purchases in the coming year.

Reflecting the early stage of online shopping in Brazil, Web buyers typically visit and purchase from a select number of e-tailers.

Highest educational level achieved by highest income in household



Top 10 purchase categories



Brazilian consumers can be lured into buying online when the price is right.

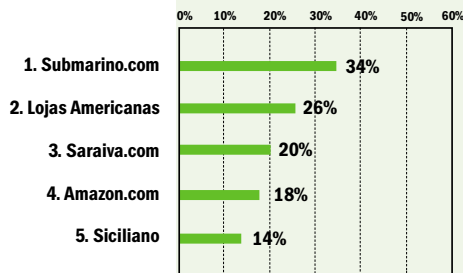
The opportunity for development in the health and beauty segment might be a bit lower, given that just 46% of consumers expect their spending for online health and beauty purchases to increase in the next year. Nearly as many, 41%, expect their spending to remain the same. Online buyers are spending an average of \$118 on their annual purchases in this category, well below the amount spent on food and beverages.

Do Brazilian online shoppers like what they get? For the most part, the answer is “yes.” Most consumers said they were very

satisfied with the product quality in all sectors when buying online. They also gave retailers in all product categories good marks for ease of use and customer service. However, the ratings were a bit lower in areas like product selection and prices. In fact, Brazilian shoppers make it clear that they are looking for online bargains, with the vast majority of consumers indicating that they expect prices on the Web to be lower than those in stores for all product sectors. Brazilian consumers appear to practice what they preach in this regard and can be lured into buying when the price is right. More than two-thirds of Web buyers have made unplanned purchases while shopping online, primarily because the item was on sale.

The issue of language is important to Brazilian consumers, who have indicated that they prefer to access sites in Portuguese. English may be the common language of the Web, but it doesn’t play in Brazil. Consider the list of favorite Web sites named by Brazilian online buyers. Leading the list is Submarino, a Spanish and Latin American site selling books and music, which was named by 34% of respondents. Rounding out the top five are Lojas Americanas, a Rio de Janeiro-based discount retailer, cited by 26%; Saraiva, which sells books, CDs, and videos and was named by 20% of respondents; Amazon, named by 18%; and Siciliano, the country’s largest bookseller, named by 14%. The only other U.S.-based site to make the list was Barnes & Noble, cited by just 4% of respondents.

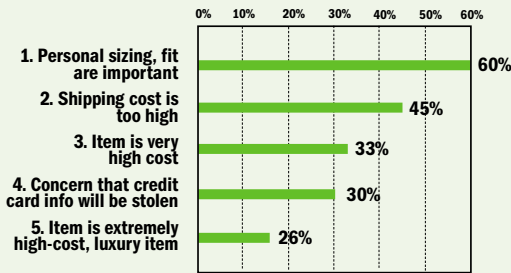
Favorite sites for purchasing



Future shop

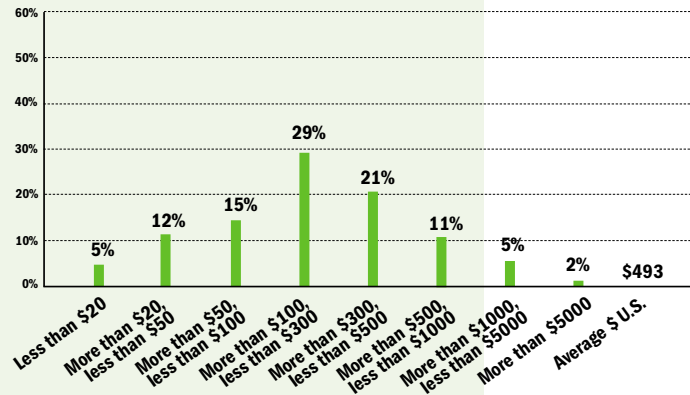
Although Brazilian consumers qualify as Net neophytes, their comfort level with online shopping is growing and it's likely to impact how they shop in physical stores. Almost two-thirds of online buyers said they shop at retail stores less often, although 33% indicated that their online shopping trips actually resulted in a purchase at a retail store.

Turnoffs



Despite overall satisfaction with their online shopping experiences, Brazilian consumers issued a number of complaints that echo those of more experienced Web buyers. Personal sizing was named by 62% of respondents as a reason not to shop online, followed by high shipping costs, which was cited by 45%. And there's clearly some room for improvement on the part of the country's e-tailers when it comes to certain problem areas. Forty-three percent of Brazilian online buyers said they have experienced problems with online shopping, ranging from goods not being shipped to billing problems to customer service issues. However, 60% of them said it will have little or no effect on their online shopping.

Trends in spending

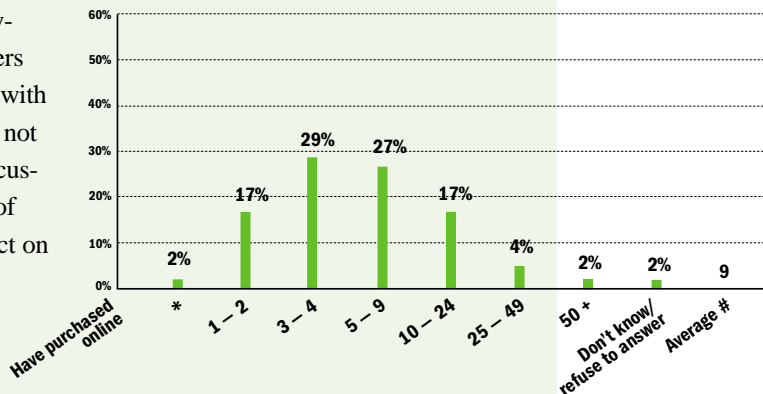


What do Brazilian Net shoppers have on their wish lists for the future? Similar to online buyers in other countries, lower prices and lower shipping costs are the leading improvements they would like to see. Three-quarters cited lower prices and 58% named lower shipping costs, and more than half said free shipping would cause them to visit a Web site more often. Loyalty programs ranked second, but were named by just 17% of respondents.

Do Brazilian online shoppers like what they get? For the most part, the answer is "yes." Most consumers said they were very satisfied with the product quality in all sectors.

Trends in purchasing

* Only purchases were financial services, travel tickets, reservations and/or magazine subscriptions.



Canadian E-Tailing: Competitive Pressures Hamper Growth

Competition from U.S. operators, a low level of funding, and uncertainty about the viability of B2C e-commerce have led many Canadian companies to take a measured approach to online retailing.

By Guy Frechette, National Industry Leader, Retail & Consumer Products and Ben Babcock, Corporate Finance Industry Leader, Retail & Consumer Products

There are few pure-play e-tailing operations in Canada, and most are reducing their advertising and operating costs in an effort to slow their cash-burn rate.

To date, Canadian retailers have been slow to aggressively pursue the online market, as they struggle with a number of business issues. Competitive pressure from U.S. companies tops the list. The size and proximity of American competitors, as well as their increasing penetration into the Canadian market, are at the root of the problem. Although some Canadian retailers are beginning to develop a Web presence, most are more concerned with getting their overall business strategies in order in an effort to strengthen their position against American operators.

The competitive environment, coupled with Canada's sheer physical size, has resulted in lower profitability for Canadian retailers, another factor that has kept many from pursuing an online strategy. An additional concern is the uncertainty about the potential size and future profitability of the e-tailing market.

The Canadian investment community thus far has not pressured companies to establish e-commerce strategies, focusing instead on retailers' overall competitive

position, of which an e-commerce strategy is one part. In addition, the venture capital community is not very mature, leading some Canadian e-tailers to turn to American capital markets for financing.

There are few pure-play e-tailing operations in Canada, and most are reducing their advertising and operating costs in an effort to slow their cash-burn rate. The Canadian stock market, like its U.S. counterpart, has become increasingly focused on the issue of profitability. In the current environment, it is unlikely that the market will tolerate continuing losses from e-tailing operations without a clear view of when these operations will become cash-flow positive.

For bricks-and-mortar operators, internal funding also is likely to be limited as companies look cautiously at the online retailing market. In general, Canadian retailers are not as well capitalized as American operators and do not enjoy the scale advantages of the U.S. market to aggressively fund Web-based strategies. Many Canadian companies have focused on

managing the risk/return profile of investments until the prospects for the online channel are better understood.

E-tailing development will not accelerate anytime soon, but when it does the country is well-equipped to handle an expanded e-commerce market. Not only does a substantial portion of the population own a personal computer and have Internet access, but PC penetration is expected to grow at a quick clip due in large part to the competitive computer market, which has kept PC costs low and availability high. In addition, Canada's phone system is reliable, the banking and financial services industry is ahead of the curve with respect to retail delivery of products and services, Internet access charges are fairly low, and the government has actively supported the development of an Internet infrastructure.

Picking the players

Identifying the key players in the B2C e-commerce market isn't easy as few Canadian companies have emerged as dominantetailers. However, Chapters has already developed brand equity on the Internet. In fact, the country's leading bookstore has exceeded Amazon.com and Barnesandnoble.com in site popularity among Canadian consumers. Other traditional brick-and-mortar retailers like Sears Canada, Canadian Tire Corporation, Mark's Work Wearhouse, a specialty menswear chain, and Future Shop, a specialty computer and electronics chain, are taking a measured approach to e-tailing.

Multi-channel operators face a variety of challenges, particularly fulfillment issues and building volume. According to the companies that we interviewed for this report, the online channel is important to extending the brand and driving revenue growth, but less so with regard to marketing or driving traffic to the physical stores. Companies are cautious as they attempt to develop their online business, with the goal of profitability clearly in their sights. States one executive for a Canadian retailer: "The company's whole focus is to go very slowly, build on our existing systems and avoid incremental costs so our revenue will be greater than the costs. In other words, the e-business will be profitable."

Few pure-play Web startups have developed a significant market position. However, an interesting development was the launch in July 2000 of Empori.com, which claims to "blend the virtual and physical to create an entirely new marketplace." The company operates brick-and-mortar depots to which consumers may have products from selectedetailers shipped for pick-up. Empori, a division of Oxford Properties Group, a leading Canadian developer and property management firm, operates a number of depots in Canada and plans to open several in the U.S. as well. Empori customers can shop online at any of the businesses that have partnered with Empori. After placing an order, a consumer selects the Empori outlet where he or she would like to pick up the items purchased. The deliveries are

The venture capital community is not very mature, leading some Canadian e-tailers to turn to American capital markets for financing.

Most Canadians are using the Web for price comparisons and product research, but as their comfort level begins to grow, cybershopping appears poised to explode.

stored in a supervised personal locker or at the depot's service counter until the consumer arrives to pick them up.

At this point, most Canadian e-business models are works in progress. Customization of merchandise mix and marketing to customers varies from one e-tailer to another, with little standardization. Generally, the breadth and depth of product mix and the degree of customization are not as great online as they are in physical stores.

Pricing on the Internet tends to be about the same or, in some instances, lower than in stores — a strategy that should be well-received by Canada's price-sensitive online shopper. However, delivery costs remain high because of the expense of maintaining an effective logistics operation to service a geographically dispersed population. Distribution models are varied and include direct ship, shipment via a distribution center, store pick-up, and outsourced arrangements. Most Canadian retailers operating on the Net track customer purchasing patterns, but the use of this data for loyalty programs and targeted marketing varies significantly.

The future: White space opportunity?

The best news for Canadian e-tailers going forward may lie in the fact that so many of the country's consumers are online yet so few are buying over the Net — at this time. That leaves plenty of opportunity for growth. Most Canadians are using the Web for price comparisons and product research, but as their comfort level begins to grow, cybershopping appears poised to explode.

However, if the past is indeed prologue to the future, the biggest challenge for Canadian companies is likely to be grabbing this business before U.S. e-tailers get hold of it.

Canadian Consumers Test the Web Waters

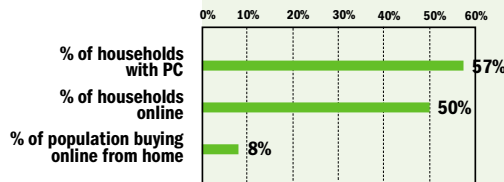
Despite a high degree of technological sophistication, Canadian consumers have been slow to take to online shopping, but the pace is expected to quicken as they become more comfortable buying over the Web.

Canadian consumers represent something of a contradiction when it comes to e-shopping. On the one hand, they're techno-savvy, with the highest levels of PC penetration and Internet access in our research.

Internet in that time, a considerably lower percentage than in countries such as Germany (where 78% have shopped online), the United Kingdom (76%), the U.S. (74%), and Switzerland (73%). And they barely edged out countries like Israel (50%) and South Africa (48%), where Internet access is far lower than in Canada.

What's keeping Canadian consumers from buying on the Net? According to our respondents, credit card concerns are the primary impediment, named by 60% of Web users. In addition, 56% said they will not purchase online because they prefer to see and feel the products first; 39% do not have a credit card; one-third lack confidence in online merchants; and 19% don't like the fact that they cannot talk to a salesperson.

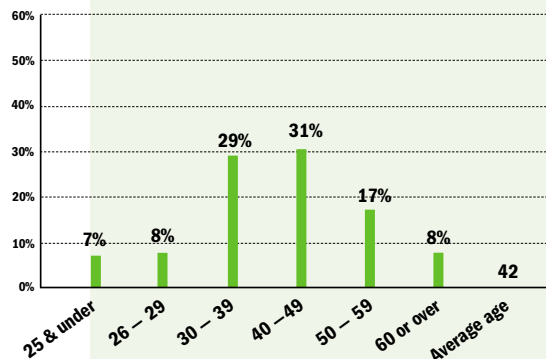
% of Households with PCs



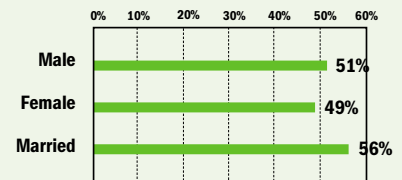
Source: IDC

Some 57% of households have PCs, 50% have Internet access, but only 8% of the population made online purchases from home in the past 12 months. In addition, only 53% have purchased an item on the

Age of shoppers

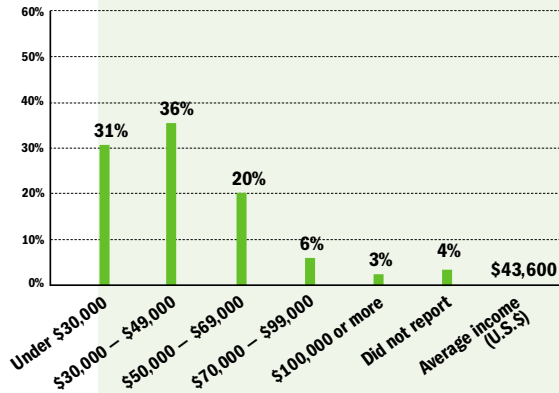


Demographics of online buyers



The pace of B2C e-commerce in Canada is likely to pick up soon, however. Almost three-quarters of Web users said they

Annual household income of buyers

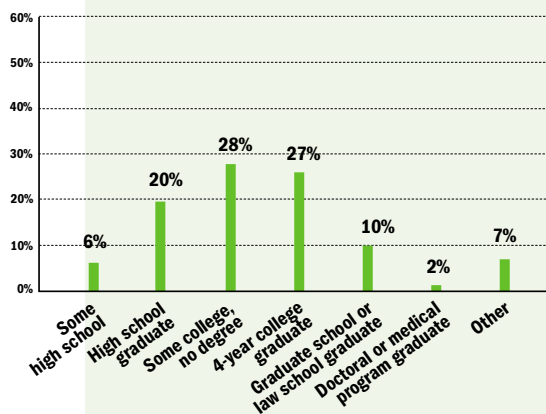


The pace of B2C e-commerce in Canada is likely to pick up soon. Almost three-quarters of Web users said they expect to make a purchase online in the next 12 months.

expect to make a purchase online in the next 12 months. And a similar percentage of respondents said they have increased both the number of items purchased online and the value of their online spending, compared with the prior year.

Many Canadian online consumers are still somewhat tentative in their buying, sticking to a small number of favorite sites rather than venturing farther out into the wired world. On average, respondents have

Highest educational level achieved by highest income in household



purchased from four sites in the past 12 months. The good news, though, is that a small group of Web shoppers (29%) have become more adventurous and have purchased from five or more sites. That number can be expected to grow as Net shoppers become increasingly comfortable buying online.

The scope of buying grows

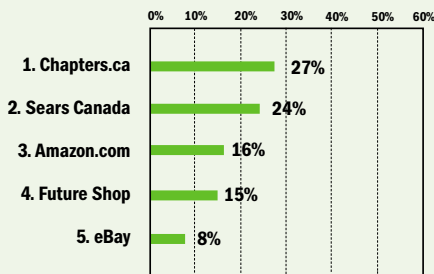
Those consumers who are buying over the Web made an average of eight online purchases in the past 12 months, for an average annual volume of \$590. Many of these shoppers have begun to expand the scope of their online buying, purchasing from categories outside of books, CDs, and computer-related items. One-quarter of Canadian online buyers have purchased clothing over the Web; 17% have purchased consumer electronics and toys; and 15% said they have made purchases from “other” categories such as antiques, arts and crafts, hobbies, pet supplies, auto parts, tools, and baby items.

While U.S. sites are popular in Canada, many consumers also shop with Canadian-based companies. Leading the list of favorite sites was Chapters.ca, named by 27% of respondents, followed by Sears Canada (24%); Amazon (16%); Future Shop, a Canadian click-and-mortar operator that sells computers, videos, audio, music, and other categories (15%); and eBay (8%). The remaining sites on the list were named by

just 5% or fewer online buyers and included a number of book, music, and computer sites such as Barnes & Noble, Radio Shack, Sam the Record Man, and Egghead.

The majority of Canadian online buyers list “good selection of items” and “competitive prices” as the primary reasons for shopping at their favorite sites. In the case of sites operated by brick-and-mortar or catalog retailers, most online buyers expect the Web site to have the same products as the store or catalog, and 59% expect these to include online bargains. That’s true for all five sectors studied (clothing, consumer electronics, toys, food and beverages, and health and beauty), with

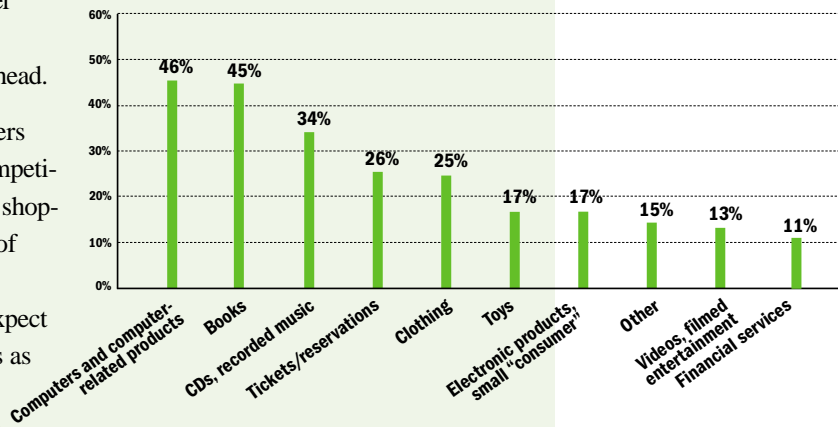
Favorite sites for purchasing



consumers indicating that they expect online items to cost less than the same items in the store or catalog.

As Canadians begin to move into online buying, the impact is being felt by physical stores in several ways. Consumers shop

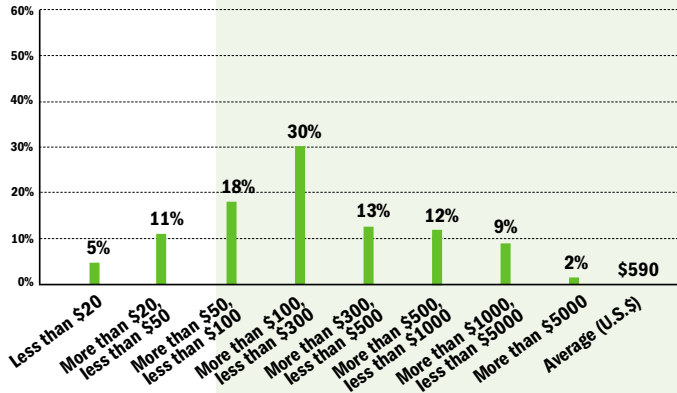
Top 10 purchase categories



the Web with the intent to purchase online, yet only 31% of these shopping trips result in an online purchase. A similar number of trips actually result in a purchase at a retail store, 8% result in a purchase by phone or mail order, and 30% result in no purchase being made at all. The overall effect on retail stores, however, is that more than half of online buyers said they shop at physical stores less often than before. In addition, 55% of Canadian online purchases are sales that would otherwise have been made in stores. However, consumers indicated that in categories such as perishable products and high-ticket items, they are more likely to do research and other purchase preparation over the Internet and then buy the product in the store.

In general, Canadian online buyers are relatively satisfied with their shopping experience, giving sites good marks for ease of use, product quality, pricing and selection in most sectors.

Trends in spending



Sales by sector: Clothing gains ground

The impact of online buying is likely to vary considerably by sector, however, as consumers test a variety of categories. Compared with some countries, only a small percentage of Canadian online buyers — 4% — purchased food over the Web. Average annual online spending for food and beverages totaled \$126. By comparison, U.S. online shoppers spent \$197 for food and beverages annually. Looking

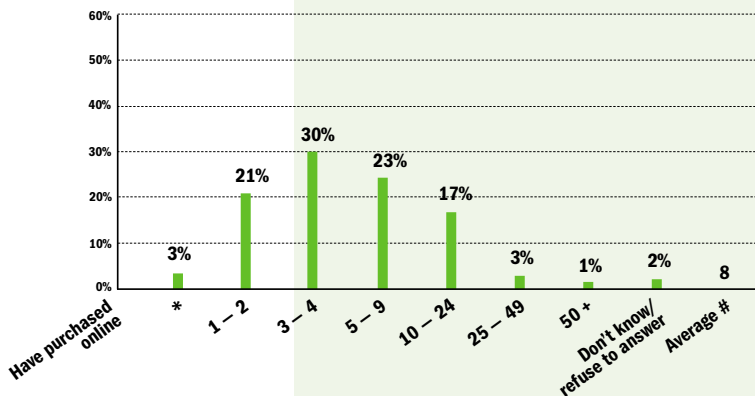
ahead, nearly nine out of 10 Canadian online food and beverage buyers said they expect to increase their spending on these items in the next year.

Online buying activity was much greater in the apparel field, where buyers made an average of nearly five clothing purchases online in a year. By comparison, Canadians made four food and beverage purchases, three in the toy sector, three in consumer electronics and just two in health and beauty. In addition to the highest number of purchases, clothing trailed only consumer electronics in terms of average annual expenditure, with consumers spending \$180 on online apparel purchases. Half of online clothing buyers said they expected to increase spending on these products in the coming year.

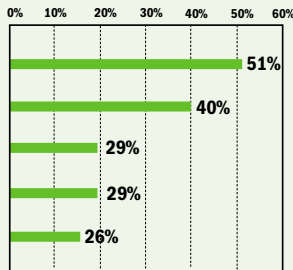
Consumer electronics registered a low frequency rate for online purchases but led the sectors in average annual value, at \$201, due to the impact of big-ticket items. In fact, 20% of online buyers spent \$300 or more on their electronics purchases. About half of those consumers who bought consumer electronics online said they expected to increase their purchases in the next 12 months.

Trends in purchasing

* Only purchases were financial services, travel tickets, reservations and/or magazine subscriptions.



Turnoffs



Trailing in terms of average annual online expenditures were toys at \$93 and health and beauty products at \$59. And the growth potential for these sectors appears to be low. Only a little more than one-quarter of consumers who purchased these items online said they would increase their spending in the next year.

In general, Canadian online buyers are relatively satisfied with their shopping experience, giving sites good marks for ease of use, product quality, pricing, and selection in most sectors. This was true even in the food and beverage and toy categories, where buying frequency and spending were low. In the health and beauty sector, fewer consumers gave high marks for pricing and ease of use, perhaps pointing to problem areas that e-tailers in that market should investigate.

What do Canadian consumers like least about online shopping? Echoing consumer complaints in many countries, they cited high shipping costs as the biggest negative factor, named by 51% of respondents. That was followed by personal sizing, which was cited by 40% of online buyers. Again reflecting the sentiment voiced by consumers around the world, 57% of Canadian e-shoppers said that free shipping is the factor that would get them to visit a site more often, with discount coupons second at only 15%.

Although deterred by the costs of shipping, online respondents do not consider problems related to fulfillment and customer service as significant enough to stop them from shopping online. More than half of Canadian Web shoppers have experienced no problems in these areas, and 71% of those who have had problems said it would have little or no effect on their online shopping.

Consumers indicate that in categories such as perishable products and high-ticket items, they are more likely to do research and other purchase preparation over the Internet and then buy the product in the physical store.

French Online Retailing: Building Momentum

A strong economy, affordable Internet access, and government support should help the French retailing market in its race to catch up with central Europe.

By Regis Fabre, National Director, Retail & Consumer Products, France

Given the recent development of French e-tailing, many companies are focusing their attention on marketing, brand extension, and driving store traffic.

Growing pains have hampered e-commerce expansion in France as the population has been slow to get connected to the Internet and e-businesses have struggled to iron out their business models. But with the awkwardness of youth almost behind it, the French online retailing market shows every sign of taking off, as it races to catch up with central Europe.

Driving e-commerce growth in France are a number of factors, including the fact that well-known bricks-and-mortar companies such as Group Pinault Printemps and Group Louis Vuitton Moët Hennessy are going online. In addition, Internet access is becoming easier. Most French ISPs offer a variety of plans, and some offer free Internet access. These and other factors are expected to boost online user penetration levels significantly over the next few years.

Taking up the e-commerce cause

Several broader societal issues also bode well for accelerated growth of B2C e-commerce in France. For one thing, the country's economy has been strong and is expected to remain that way. The French

government has also taken up the e-commerce cause and has launched a campaign to promote the Internet and build awareness among consumers. Credit card security remains an issue with French consumers, although there's some evidence that this is changing as the wired population becomes more comfortable with the Internet, and as well-known banks and insurance companies like FIA-NET.com have become involved in the transaction process. "Technologically, we haven't encountered any security problems," says Hervé Roche, Internet marketing manager for Go Sport (go-sport.fr), a French-based sports retailer that operates more than 100 stores in France, Belgium, and Poland. "We have not had hackers. The credit card numbers do not pass through the company but go straight to the bank. The security system is not a major problem, and it's as easy as ordering through the phone line, but a lot more secure."

Potential regulatory controls should help ease security concerns as well. A law designed to guarantee the security of Internet transactions is now working its way through the legislative process.

In addition, two European Community Directives about e-commerce will boost consumer confidence. These Directives provide, in particular, a right of withdrawal (return of the product) and require the consumer's full consent before a seller can close a sale.

EC legislation also recognizes the validity of the electronic signature. Moreover, a consumer will be allowed to seek redress in his own country's courts if there is a dispute over an online sale. Currently, in accord with the 1968 Brussels Convention, such disputes may fall within the jurisdiction of the consumer's home country.

Another positive force was the development of the Nouveau Marché, the country's high-tech stock market modeled after the NASDAQ. The market prompted a rush of IPO filings and may result in the expansion of the pure-play segment in France.

Internet competition picks up

Competition within the French retail business is heating up as an increasing number of companies take to the Net. Sectors experiencing growth include banking, financial services, books, music, and travel services. Given the recent development of

French retailing, many companies are focusing their attention on marketing, brand extension, and driving store traffic. As consumers' awareness and comfort levels grow, retailers' emphasis will likely shift more heavily toward revenue growth.

In an effort to build awareness and increase traffic, some retailers are establishing alliances with other businesses, such as search engines, Web directories, and affinity sites. Such alliances can offer benefits for both parties, especially information exchange as well as increased brand exposure.

Pricing policies also vary, with some retailers matching pricing and promotions between their stores and their Web site. Generally, prices are almost never lower on the Internet, except when they are sale-priced for clearance. Again, our research shows that consumers expect low prices online.

It is very much a transitional time for online retailing in France, especially as traditional bricks-and-mortar retailers begin to move into this channel. For these companies, there is a significant opportunity to offer not just a new service, but more value to both customers and shareholders.

It is very much a transitional time for online retailing in France, especially as traditional brick-and-mortar retailers begin to move into this channel.

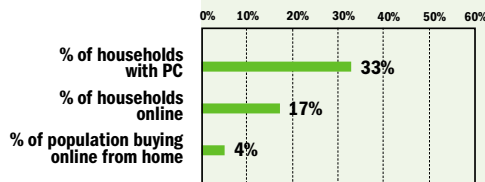
French Consumers Stepping Up Their Online Purchases

Despite low Internet penetration rates, French consumers are quickly making up ground in the online shopping race.

Technology hurdles such as low Internet penetration rates, as well as credit card security concerns, have hindered the growth of B2C e-commerce among French consumers, whose online shopping levels have lagged behind those of other Central European nations. However, evidence

The growth is likely to come as Internet access increases. International Data Corp. (IDC) estimates that 33% of French households have a PC, 17% of households are connected to the Internet, and 4% of the population have made purchases online from home. These numbers will likely increase significantly in the next few years.

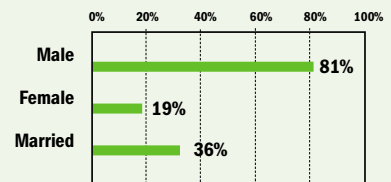
% of Households with PCs



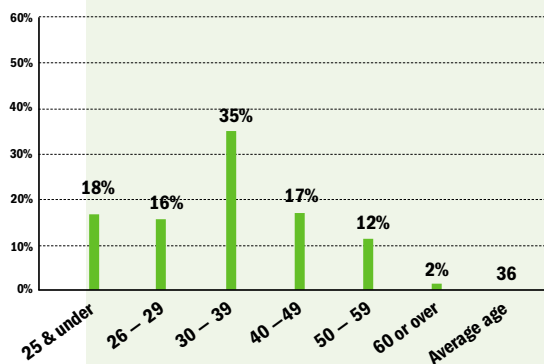
Source: IDC

suggests that this will change as the French accelerate their Web buying. Almost 61% of Internet users surveyed in France said they had made an online purchase in the past year and, more important, 84% expect to buy online in the next 12 months.

Demographics of online buyers



Age of shoppers



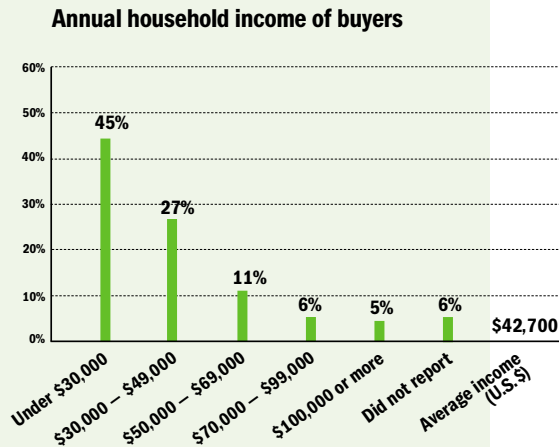
consumers indicated that concerns about credit cards was the primary reason they will not make online purchases, and nearly two-fifths said they will not buy over the Net because they prefer to see and feel products. Consumers also indicated that they lack confidence in online merchants and some simply find the whole Internet buying process too confusing.

As their familiarity with online shopping increases, however, French consumers are exploring the Web a bit more. They now typically visit and purchase from a variety of different sites. Close to half of those who have made an online purchase said they have bought from five or more sites in the past 12 months. On average, respondents have purchased from seven sites and have made 9.5 online purchases in the past year. Roughly half of French online buyers claimed that during the prior 12 months they had greatly increased the number of items purchased online, as well as the annual value of their online spending, which averaged \$709.

Category close-up: Books lead the way

These purchases have been made in a number of different categories. More than half of French online buyers have purchased books and computer products, while 44% have bought tickets/reservations, and 43% have purchased CDs and recorded music. After the top four categories, there is a significant drop-off in the percentage of buyers in the remaining sectors. At the bottom of the category list are such categories as flowers, health and beauty, toys, large household goods, and car rentals.

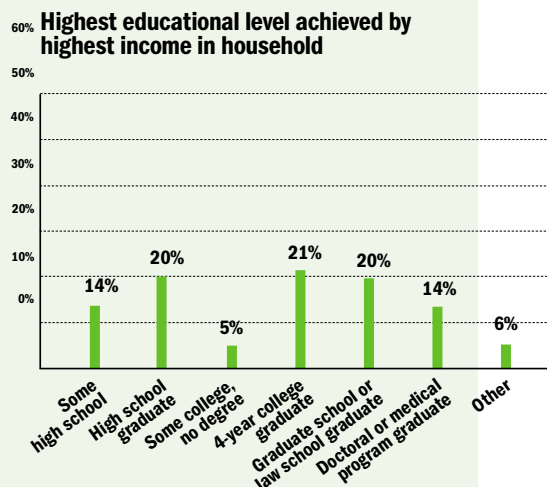
While Amazon leads the list of favorite sites, named by 22% of online buyers, French e-tailers round out the top five. Book vendor FC and SNCF, the French national railways company, cited by 20% and 18% of respondents, respectively, follow in the number two and three spots, with Alapage, featuring books, music, and



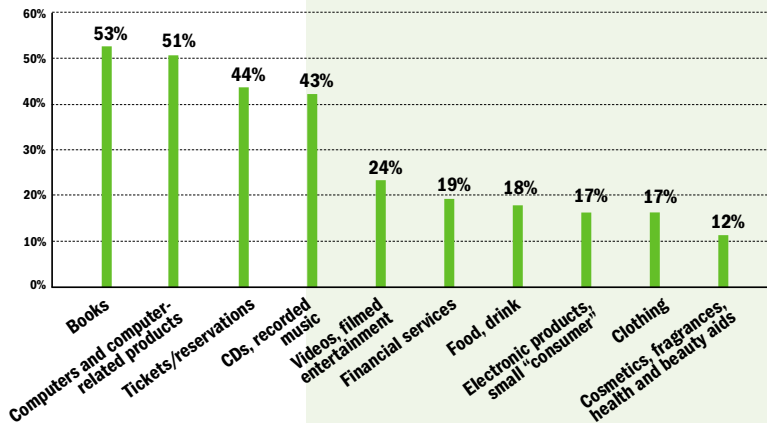
videos, named by 10%; and Degriptour, a French travel site, cited by 7%.

Of the five key sectors studied for this report — food and beverages, consumer electronics, clothing, toys, and health and beauty — food and beverages led the list in terms of average annual number of purchases, at five, followed by health and beauty at four, toys at four, clothing at three, and consumer electronics at two. Food and beverages also led the sectors in annual value of online purchases, at \$447, ahead of health and beauty at \$315, clothing at \$167, consumer electronics at \$118, and toys at \$108. The good news for the future

French consumers typically visit and purchase from a variety of different sites.



Top 10 purchase categories



Overall, Web buyers in France seem fairly pleased with their online shopping experience.

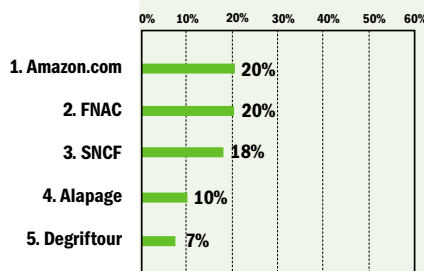
of e-commerce is that about half of the French buyers expect to increase online spending in these categories, with most of the remaining buyers expecting spending to remain the same. The number was highest for clothing, where 75% of online buyers said they will spend more in this category in the next 12 months, followed by food and beverages, with 72% expecting their purchases to increase.

Overall, Web buyers seem fairly pleased with their online shopping experience. A substantial percentage gave e-tailers in most categories good grades for product quality, pricing, ease of use, and item selec-

tion. However, consumer electronics sites scored poorly in overall experience, ease of use, and special offers. These poor scores may be due to the fact that many of the sites are fairly new and French consumers are not yet buying these products online to any great extent. Time and experience will no doubt improve the performance ratings for these e-tailers in the future.

The ultimate impact on physical stores in France as a result of online buying remains to be seen. Half of online buyers said they shop at retail stores less often, although 23% said online shopping has actually increased their shopping at brick-and-mortar stores. And, in fact, Web buyers noted that 55% of their online shopping trips resulted in a purchase being made at a retail store, while just 25% of those trips resulted in an online purchase, which would seem like good news for the nation's physical-store retailers. However, that may change as consumers become more experienced in shopping over the Internet. For the moment, consumers' continued reliance on physical stores could prove to be an opportunity for click-and-mortar operators to drive sales if they do a good job integrating the two channels.

Favorite sites for purchasing

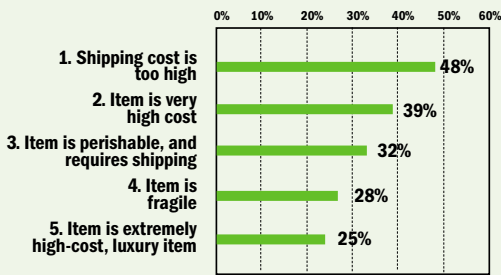


What buyers want: Selection and price

The majority of French respondents are looking for two things online: good selection and competitive prices. As is true with Web shoppers in most countries, this translates into an online product mix that duplicates the selection in the store or catalog, along with online bargains and specials.

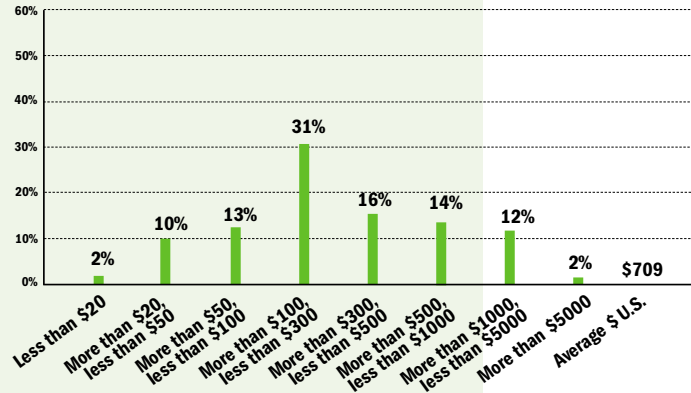
Most buyers expected to see lower prices online than in the stores for the same products, except in the food and beverage sector, where 56% of respondents expect prices to be the same online as in-store. In addition, almost half of French online buyers said the high cost of shipping was the biggest factor keeping them from purchasing online.

Turnoffs



Given a wish list of changes that could be made in the online shopping experience, what would French consumers put on it? Unlike buyers in many countries who pointed first and foremost to reduced shipping costs, the French identified lower prices, named by 59%, as the leading improvement they'd like to see in Internet shopping. However, 45% would like to see lower shipping costs as well. Free shipping was cited as the factor most likely to get them to visit sites more often.

Trends in spending

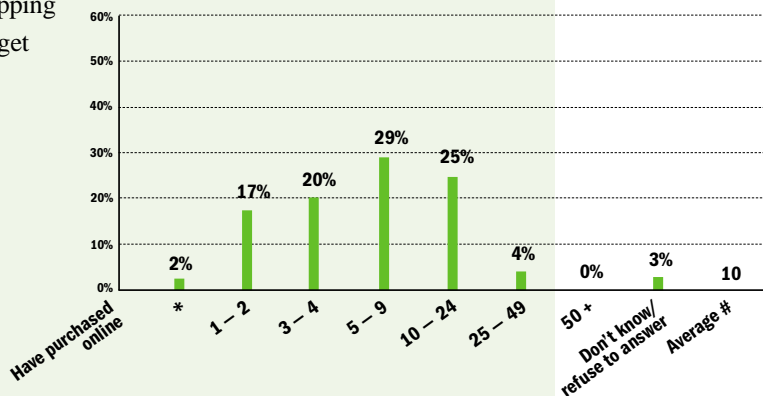


As in many countries, French consumers do not consider problems related to fulfillment and customer service as significant enough to stop them from shopping online. In fact, more than half of French online shoppers have experienced no problems related to fulfillment and customer service, and 35% of those who have faced problems said it will have little or no effect on their online shopping. However, 53% said they will no longer purchase from particular Web sites because of such problems.

The ultimate impact on physical stores in France as a result of online buying remains to be seen.

Trends in purchasing

* Only purchases were financial services, travel tickets, reservations and/or magazine subscriptions.



German E-Tailing: Poised for Growth

German companies are fighting U.S. dominance of the country's online business as they attempt to capitalize on what many believe to be one of the strongest e-commerce growth markets in Europe.

By Armin Sohler, Director, Retail & Consumer Products, Germany

B2C revenue is likely to increase exponentially as more of the country's big retailers launch their Web operations.

German e-tailers face a huge challenge in the form of U.S. domination of the German B2C e-commerce market. Companies such as Amazon, Yahoo, America Online, MSN, and Netscape have a strong — and growing — presence in the German e-tail market. Many of the major German brick-and-mortar retailers have yet to develop an online operation. If they don't act fast, they stand to miss what many believe to be one of the strongest e-commerce growth markets in Europe.

The country's signs of readiness are promising. Technology developments, for example, point to the potential: The telecommunications market and infrastructure are sophisticated and competitive; the hotly contested ISP market has led to favorable pricing programs from German providers such as Deutsche Telekom as well as U.S.-based companies like AOL and Dell; the high-speed access market is developing rapidly; and both PC usage and Internet access are high. International Data Corp. (IDC) describes Germany as "the market with the most potential for growth of Internet users in absolute terms," largely due to the fact that usage of ISDN services is the highest in Western Europe.

Other factors also promise to drive e-commerce growth in Germany. The country has a well-developed mail-order industry, which has established a strong presence on the Net. In addition, online banking and financial services have become popular, helping to provide a comfort level among consumers when it comes to making transactions over the Web. Government support of e-business has been strong, including the introduction of a national technology plan late in 1999, as well as a willingness to allow the hiring of non-German high-tech employees in order to fill the void that exists in the country.

In addition, the government is examining the possibility of tax cuts on stock options, which could be a boon for pure-plays. However, many analysts expect a shakeout to hit the dot-com market sometime soon.

With numerous positive factors in place, the German e-commerce business appears ready to explode. B2C revenue is likely to increase exponentially as more of the country's big retailers launch their Web operations. While a few physical-world companies, such as publisher Bertelsmann; OBI, which operates DIY home

improvement centers; and clothing company Karstadt, have opened online stores, the B2C market at the moment consists largely of mail-order companies and pure-play start-ups.

Competition in the books and music categories, in particular, is heating up as the market gets stronger and well-financed start-ups increase their online presence. “We see that there is lots of competition in this field and that they are working out their numbers differently as we are a traditional retail enterprise,” says Jens Larbus, sales manager, WOM World of Music (wom.de), which operates 21 stores across Germany. “These competitors spend a huge amount on marketing, so we are seeing a major difference in the amount spent to acquire a customer.”

The heightened competitive environment has forced many traditional retailers to adopt something of a defensive posture with their e-commerce operation. “In our segment, if you are not entering into e-commerce activities you will probably become a dinosaur and be extinct pretty soon,” says Larbus. “We waited a very long time to enter this market at the right time. We always had the feeling that players entered into this market without already having the right penetration level and brand awareness in households.”

As the market begins to unfold, brick-and-mortar retailers are using the Internet as much to build a presence, drive traffic to

their physical stores, and transfer their brand online as they are to drive revenue growth. “I do not think B2C will be all that successful [in terms of revenue],” says Lars Biewald, project manager, new media-eBusiness, OBI (obi.de), a large home improvement retailer operating in Germany, Austria, Italy, Poland, Slovenia, the Czech Republic, and several other European countries. “To begin with, it is more about attracting and retaining customers to the new channel. In the mid-term, I think B2B will be more profitable for our market.” Indeed, with B2B marketplaces like the Worldwide Retail Exchange starting to establish themselves, the potential for B2B is considered to be far greater than for B2C.

Among the biggest challenges for e-tailers is the low usage of credit cards among German consumers, who favor debit and bank cards. The country’s e-tailers have turned to other forms of payment, such as cash on delivery, invoicing, and bank collection, to handle online transactions.

This unfamiliarity with credit cards has led to some security concerns among consumers. However, Larbus believes that a well-known brand name can help e-tailers allay those fears. “The biggest point is the trust in the brand itself,” he says. “We do not mess customers about in the stores so why should we do that online? We are not likely to sign up to one of those ‘trusted shops’ or something like that. Our brand stands for ‘this brand can be trusted.’”

Germany has been called “the market with the most potential for growth of Internet users in absolute terms,” largely due to the fact that usage of ISDN services is the highest in Western Europe.

German telecommunications companies have spent big money to acquire third-generation mobile phone licenses.

A technology barrier that could restrict future e-commerce growth is the low incidence of mobile phones in Germany. However, German telecommunications companies have spent big money to acquire third-generation mobile phone licenses, so the hurdle could be overcome soon. Larbus points out that this is a key issue and could make a real difference in building online revenue. “Currently you have to go through an ISP to get to our content,” he says. “In mobile commerce it could be direct.”

As in so many countries, the logistics of the delivery process remains an issue for German e-tailers, leading some to explore a variety of options such as using the logistics services of mail-order companies. “We are talking about logistics on a very big scale and we will have to see how this develops,” says Larbus. “We would love to have something like Kozmo in New York, where you have bicycle deliveries within six hours of placing an order in big cities. If there are solutions making up the speed of getting product to customers, then we will look at that seriously.”

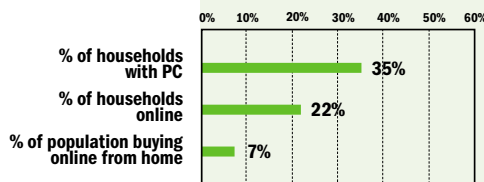
Germany: Connected and Consuming

German consumers are wired and buying, but online spending levels have not reached their potential and purchases are concentrated in a few categories.

Online shopping in Germany has taken off, with explosive growth anticipated in the next few years. More than three-quarters of Web users have purchased an item online in the past 12 months, the highest percentage of any of the countries studied in this

German households have a PC, 22% of households are connected to the Internet, and 7.4% of the population, or 6.1 million people, are buying online from home.

% of Households with PCs

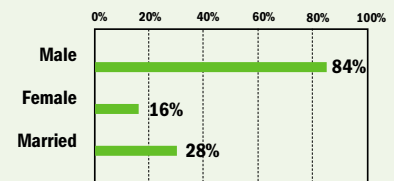


Source: IDC

report. And 92% expect to make an online purchase in the next year. What's more, 82% of German online buyers have greatly increased the number of items purchased online, compared with the prior year.

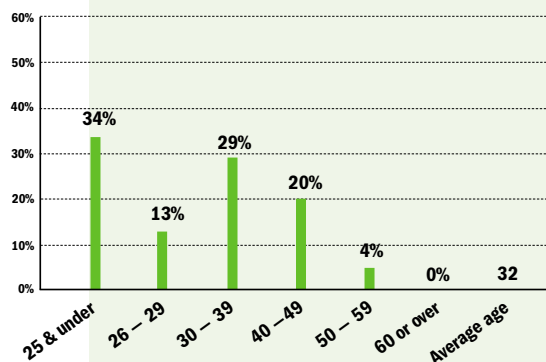
What's behind this growth? Technology appears to be a driving force. International Data Corp. (IDC) estimates that 35% of

Demographics of online buyers



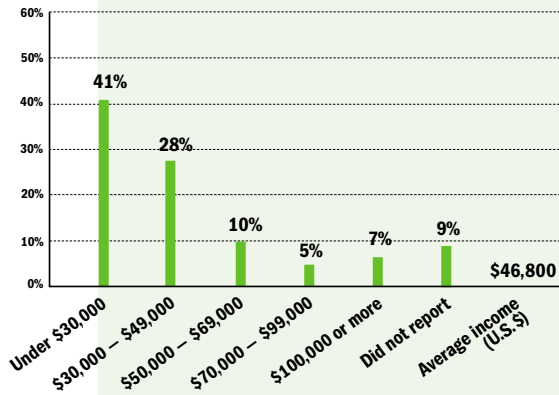
Although online shopping has exploded in Germany during the past year, the country's consumers are relatively new to the world of e-commerce. Spending levels, for instance, are still low. The annual value of online purchases in Germany averages U.S. \$656, below the global average of \$729, and considerably below the \$896 spent by U.S. online buyers.

Age of shoppers



Online buying isn't for everyone, of course. Those Web users who continue to shy away from Net shopping point to the inability to see the products, as well as concerns about using credit cards online. In addition, 57% of respondents indicated that the lack of a credit card was a leading obstacle to online purchasing. And more than one-third said they lacked confidence in online merchants.

Annual household income of buyers



Although online shopping has exploded in Germany during the past year, spending levels are still low.

The majority of online purchases are concentrated in three product categories — books, computer products, and CDs/recorded music. Among German online buyers, 70% have purchased books; 60% have bought computer products; and 53% have purchased CDs and music during the past year. After the top three categories, there is a noticeable drop-off in the percentage of buyers in other sectors. For instance, tickets and reservations, videos, and clothing were bought by roughly one-quarter of respondents; consumer electronics by 19%; health and beauty products by 17%; toys by 14%; financial services by 12%; and food

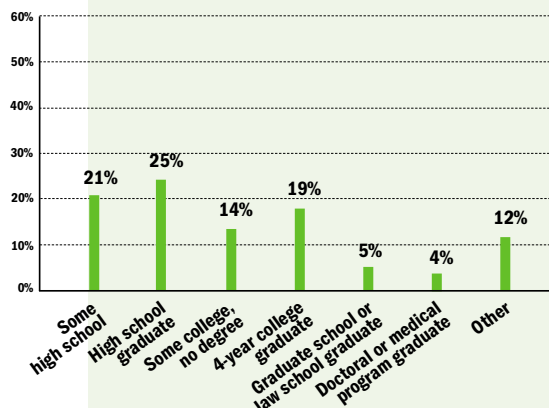
and drink by 10%. The remainder of the categories, including flowers, sporting goods, car rental reservations, and large household goods, were purchased by fewer than 10% of online buyers.

Food and beverages, while bought by a relatively small number of online consumers, actually led the sectors in terms of the number of purchases made in the past year, at 6, compared with 3 for clothing, 3 for health and beauty, 3 for toys, and 2.0 for consumer electronics. However, when it comes to the annual dollar value of online purchases, clothing, at \$204, and consumer electronics, at \$154, beat out the other sectors, owing to the higher prices of products in those categories. The average annual value of online food and beverage purchases was \$116; for toys it was \$87; and for health and beauty products, just \$77.

Spending expected to rise

Buyers said they expected to increase their online spending in these categories, although there were significant differences in the numbers. In food and beverages, 71% said they expected to buy more online; 58% said they expected to increase their spending on toys; 57% in consumer electronics; 45% in health and beauty; and 39% in the apparel sector.

Highest educational level achieved by highest income in household

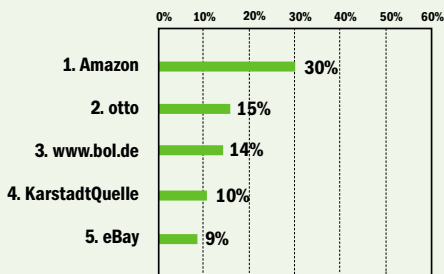


Satisfaction levels varied somewhat depending on the sector, but in general e-tailers in all sectors received high marks for product quality. A fair number of German online buyers also gave clothing e-tailers high marks for ease of use and pricing. Consumer electronics sites were

rated highly on ease of use, pricing, the overall experience, and item selection. Nearly half of buyers gave toy sites the highest satisfaction rating for ease of use, but the marks dropped considerably for measures such as customer service, pricing, and overall experience. Food and beverage e-tailers were rated highly on special offers as well as product quality, but fell off significantly in the remaining measures. And in the health and beauty sector, a fair number of consumers gave high satisfaction ratings for item selection and pricing. The marks were far lower for ease of use, customer service, and overall experience.

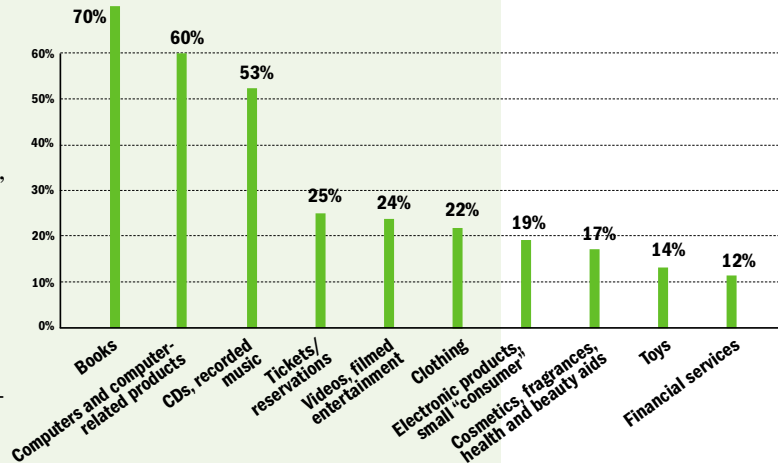
Given German consumers' relatively low level of spending online, it's not surprising that they are visiting and buying from a

Favorite sites for purchasing



fairly small number of Web sites at this point. More than eight out of 10 of those who have made an online purchase said they have bought from five or fewer sites in the past 12 months, averaging four sites overall. However, as consumers become increasingly comfortable with Internet buying, it's expected that the number of sites they buy from will increase.

Top 10 purchase categories



Amazon and mail-order giant Otto are the most frequented sites, with 30% and 15% of online buyers, respectively, listing these as a favorite site. Only two other e-tailers — bookseller Bol.de, named by 14%, and department store retailer Karstadt Quelle, cited by 10% — were mentioned by more than 10% of online buyers. Other e-tailers that made the list of favorite sites included eBay, named by 9% of Web shoppers; electronics e-tailer Conrad (5%); and Vitago, a multi-category retailer selling products such as fitness and sports, baby, and health and hygiene (4%).

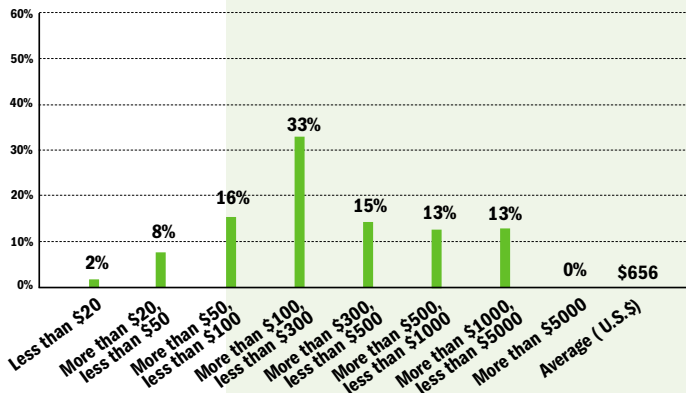
Shoppers on a mission

When it comes to their online shopping habits, Germans are consumers on a mission. The majority said they typically shop with the intent to purchase, although fewer than half of their online shopping trips actually result in an online purchase. And in 28% of the cases, their online trip results in a purchase at a retail store, while 14% of

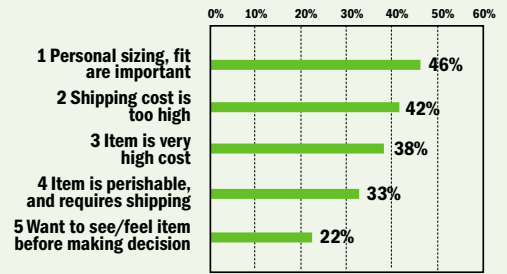
Given German consumers' relative inexperience with online shopping, it's not surprising that they are visiting and buying from a fairly small number of Web sites at this point.

CONSUMERS

Trends in spending



Turnoffs



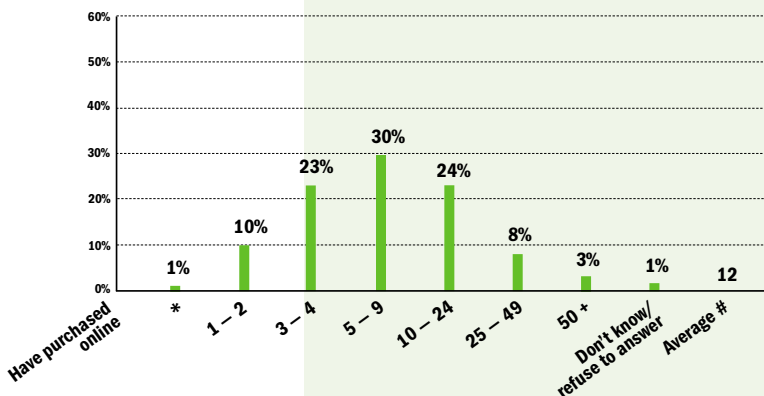
Satisfaction levels varied somewhat depending on the sector, but in general e-tailers in all sectors received high marks for product quality.

shopping trips result in no purchase being made at all. Yet, there's evidence that at least some German consumers are slowly being lured away from physical stores. More than half of online buyers said they shop at retail stores less often. And 60% of online purchases were sales that would have otherwise been made in stores.

These shoppers said they're attracted to the Web by product selection and price. For 34% of online buyers, good availability of items is the most important reason for shopping online; 29% expect the online site to have the same products as in the store or catalog; and 48% expect the selection to include online bargains.

Trends in purchasing

* Only purchases were financial services, travel tickets, reservations and/or magazine subscriptions.



What don't German consumers like about online shopping? The lack of personal sizing, high shipping costs, and high prices were the leading complaints. More than half of online buyers said they had not experienced any problems related to fulfillment and customer service. Among those who had experienced difficulties, the major complaints were that the company was unable to ship a product or that the consumer received a different product from the one that was ordered. Three-quarters of those who cited problems said they would not be deterred from making future online purchases.

What would consumers like to see changed? Faster shipping was the leading improvement online buyers would like to see in Internet shopping, cited by 55% of online buyers. In addition, 48% said they'd like the shopping process to be faster. Lower prices, more information about products, and a total guarantee of privacy were also named, but by a much smaller percentage of consumers. Interestingly, German buyers, unlike those in many countries, put lower shipping costs way down on the list of improvements they'd like to see. It was cited by just 17% of respondents. However, 60% of buyers said free shipping of product would get them to visit a site more often, with discount coupons a distant second, cited by just 19% of buyers.

Israel E-Tailing: A High-Tech Contradiction in Terms

Online shopping remains in its infancy in Israel, a country that is otherwise considered to be a high-tech haven.

By Doran Sharabany, Director, Retail & Consumer Products, Israel

Those traditional physical-world retailers that are moving online generally have two goals in mind: to establish a Web presence and create a channel that is complementary to their brick-and-mortar operations.

With its risk-tolerant and tech-savvy culture, Israel could be expected to be an explosive market for online retailing. Yet barriers abound, preventing a realization of B2C potential. The biggest stumbling block is the scarcity of wired consumers. Only 21% of households currently have Internet access and even fewer are making online purchases. This may seem surprising in a country where the high-tech industry, and particularly the cutting-edge Internet sector, contributes significantly to the economy. In fact, the NASDAQ has many Israeli-based technology firms.

This backdrop has led many observers to predict that e-commerce in Israel will soon take off. However, little is likely to happen until retailers get past the security hurdle, which remains a chief stumbling block to Internet buying. It's a legitimate concern, given the numerous hacker-caused security breaches that have wreaked havoc on online credit card transactions in the country. To address the concern, a number of companies allow consumers to pay for their Web transactions over the phone. The introduction of debit cards for online purchases is also expected to help overcome the security issue.

Supply chain issues and infrastructure limitations have also stymied e-tailing growth. Among the barriers are the country's relatively unsophisticated road system and high tax structure for business. Access speed also continues to be an issue, as high costs and regulatory obstacles have hampered broadband development. However, the anticipated restructuring of the country's telecommunications industry is expected to drive high-speed growth in the future. Bezeq, the state-owned telecommunications firm, is in the process of expanding its Internet services, a positive sign for the future of e-commerce. It is expected to vie with several major cable operators for the high-speed market but faces regulatory restraints from Israel's Communications Ministry. Also on the plus side is the fact that Israel boasts a sophisticated banking system and a strong cellular communications industry. Government statistics indicate that there are more than 2.5 million cellular lines in a country with a population of just over six million.

Language and cultural differences among Israeli shoppers remain important issues for companies moving into the e-tailing business in Israel. Consumers in search of

Language remains an important issue. Consumers in search of content in Hebrew or Arabic will find themselves sorely disappointed.

content in Hebrew or Arabic will find themselves sorely disappointed. This appears to be changing, however, as operators recognize the potential for e-tailing growth among non-English-speaking Israeli consumers.

The confluence of these factors has kept the Israeli e-commerce market from progressing out of its infancy, with just a handful of brick-and-mortar retailers moving online. Among traditional operators taking to the Net are Super-Sol (supersol.co.il), a large Israeli-based super-market operator, and U.S.-based Best Buy. These retailers have joined the few pure-play startups, such as 4sale (4sale.co.il), that currently dominate the Israeli e-tail business. However, the startups may not get the same type of honeymoon that many U.S. pure-plays enjoyed prior to the dot-com fallout of 2000. The stock market in Israel is already showing signs of intolerance when it comes to e-tailer losses.

Those traditional physical-world retailers that are moving online generally have two goals in mind: to establish a Web presence and create a channel that is complementary to their brick-and-mortar operations. Most believe that brand extension is a key benefit that can come from taking their operation to the Internet. Far less important at this early stage of the game are issues such as driving store traffic and revenue growth. Certainly as the market begins to mature, it is expected that revenue growth will become a more important strategy. Currently, most click-and-

mortar companies report that only a small percentage of their sales are coming from the online channel, but they expect that to grow steadily over the next five years, perhaps reaching as high as 25%. Most also anticipate that their Web-based businesses will be profitable in three to five years.

The online model of choice: Semi-autonomous

In most cases, companies are running their online site as a semi-autonomous operation, rather than fully integrating it into the overall business or keeping it entirely separate. However, some firms have opted for a separate management team, while others have elected to put the online channel in the hands of the existing management.

As part of their efforts, companies are establishing performance metrics that are specific to the online business. Sales volume is generally the primary measure, although most firms acknowledge that sales growth is not their primary goal at this point. Other performance measures include average sale per customer, average product price, patron level, and return level.

The individual elements of the Israeli online business model are still evolving as companies test the wired waters. Many physical-world operators are experimenting with a product mix that exceeds that found in their stores. And most expect to continue to broaden that mix. This may be a good strategy, as consumers in Israel — and around the world — are seeking broad merchandise assortment online. In addition

to products,etailers are providing content such as product information, how-to advice and product suggestions.

In an effort to drive potential buyers to their sites and develop loyalty among Israel's small but growing wired population, e-tailers are engaging in a variety of promotional activities. For one thing, their online pricing generally is lower than that in the physical stores and many say they have a separate pricing structure for their e-tail operation, driven largely by competitive concerns.

Beyond pricing, companies are using various forms of advertising and are establishing alliances with online malls and portals as they attempt to increase traffic to their site. Many are pushing bundled offers and other types of promotions to build customer loyalty.

Reflecting the young state of the country's e-business environment, most sites provide little in the way of customization, although a few e-tailers say they are making an effort to customize some aspects of their content. Systems development is also quite unsophisticated at this point, with little to nothing being done in the area of data mining or targeted marketing.

As they move forward, Israeli e-tailers point to several issues that will be critical to the future of their Internet businesses. Topping the list are fulfillment and customer service, followed by returns. Many click-and-mortar companies say they are planning to offer in-store pick-up for online orders as a way around the costs and difficulties associated with the last-mile delivery concerns.

The individual elements of the Israeli online business model are still evolving as companies test the wired waters.

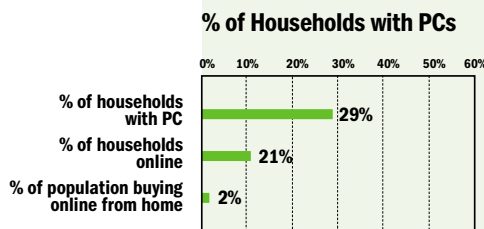
Israel: Slow Going for Online Buying

With low PC and Internet access penetration, e-commerce in Israel has been slow to take off.

If e-commerce is to take off in Israel, several things must happen: The number of online shopping sites must increase significantly; Internet access must expand beyond the small percentage of consumers who are now wired to the Web; and Net

the Web users surveyed have purchased an item online in the past year, among the lowest of any of the countries included in our research.

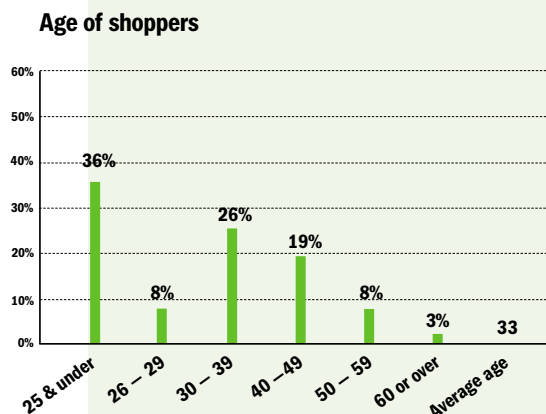
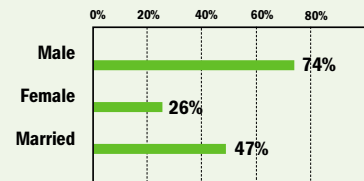
Credit card security sits at the top of the list of reasons why consumers won't make an online purchase, cited by 44% of respondents. In addition, 28% are turned off by not being able to see and feel products before they buy, and 18% said they lack confidence in online merchants.



Source: IDC

users will have to be converted to online shoppers, a transformation that's occurring slowly. PC penetration in Israel stands at 29% of households, while 21% of households have Internet access. Only half of

Demographics of online buyers



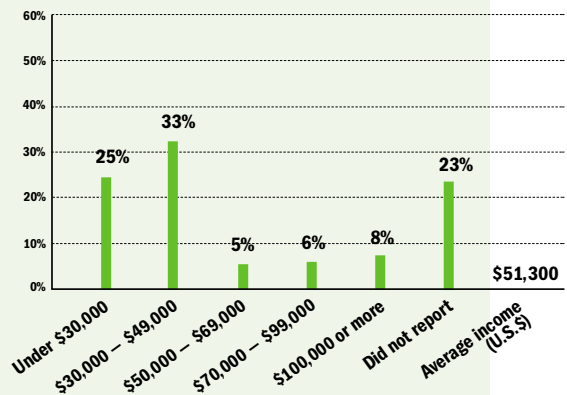
What are Israeli online consumers buying? Books led by far: almost two-thirds of shoppers have purchased books online; 31% have bought CDs/recorded music; 30% have purchased consumer electronics; and 23% have bought computer products over the Web. Only 11% have bought health and beauty products and just 10% have purchased clothing or financial services. At the bottom of the list are categories such as toys, food and drink, car rental reservations, flowers, and sporting goods.

Israeli online shoppers averaged more than seven purchases over the Web in the past 12 months with an annual value of \$778. This figure approaches the annual value in the United States, \$896, in part because Israeli shoppers are purchasing consumer electronics, which carry a high price tag in the country. More than three-quarters of Israeli online buyers said they have increased the number of items purchased online as well as the value of their online spending, compared with the prior year.

The shoppers who are buying online are testing a fairly extensive number of sites. Nearly half of those who have made an online purchase said they have bought from five or more sites in the past year. On average, respondents have purchased from slightly more than seven sites.

A closer look at some of the product sectors reveals a fairly wide swing in terms of the value of online purchases. At the high end is the consumer electronics category, where the average annual value of online purchases totaled \$613, although the average expenditure was \$200. By comparison, the average annual value of online purchases in all the remaining categories was far lower: \$220 for toys, \$188 for food and beverages, \$184 for clothing, and \$146 for health and beauty. At this point, Israeli buyers are mostly unsure about increased spending in these online categories, with the exception of consumer electronics, where 57% of respondents said they expected to increase their online purchases in the next 12 months.

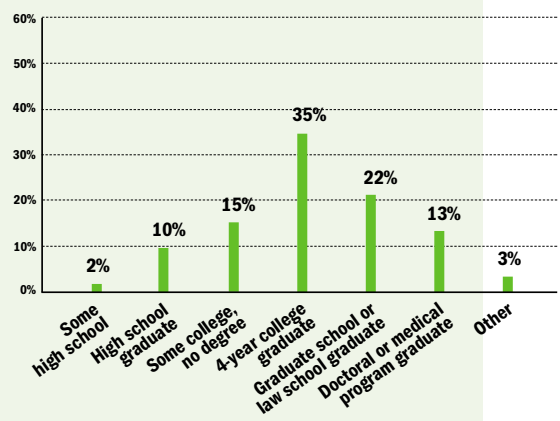
Annual household income of buyers



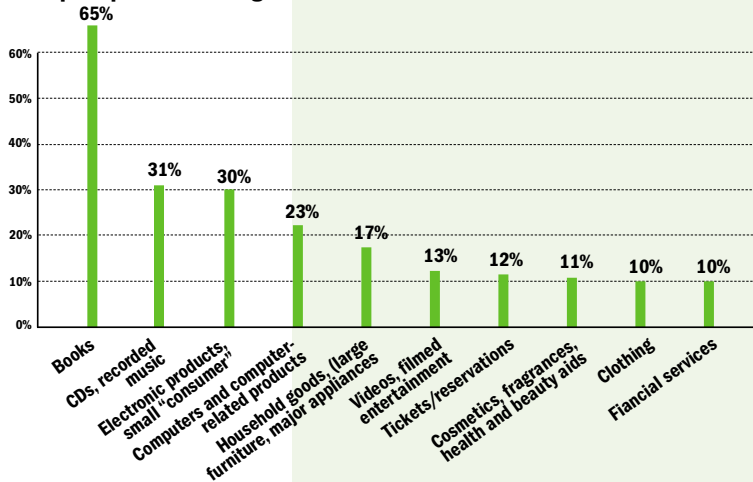
The companies favored by our respondents are largely pure-play dot-coms. Leading the pack is multi-category e-tailer 4sale, cited by 23% of consumers as their favorite site. Other favorites include auction site Olsale, named by 14% of buyers; 522, an online shopping mall, cited by 11%; Hebrew bookstore Dbook, 10%; and auction site Netauction, 10%. Currently, online loyalty appears to be low among Israeli buyers.

Only half of the Israeli users surveyed have purchase an item online in the past year, among the lowest of any of the countries included in our research.

Highest educational level achieved by highest income in household

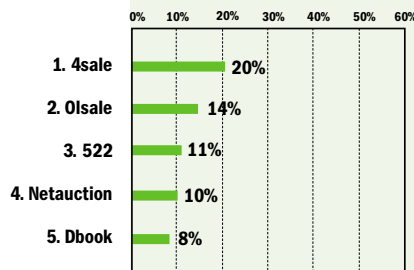


Top 10 purchase categories



Consumers are inclined to use search engines to access a Web site. Only 22% said they click on from a favorite file or key in the company name. Comparison shopping sites, online malls and banner ads have not proved effective in driving traffic to sites for purchases.

Favorite sites for purchasing



The impact on stores

Respondents said their online buying is affecting how they shop retail stores, with 41% indicating that they shop physical stores less often. In addition, 52% of Israeli online purchases are sales that otherwise would have been made in-store. However, many of their online shopping trips are not resulting in a purchase. In 35% of the cases, the shopping trip translates into a purchase over the Web; 29% of the trips result in a purchase being made at a brick-and-mortar store; 14% result in a purchase by phone or mail order; and about 25% of the trips do not result in a purchase at all.

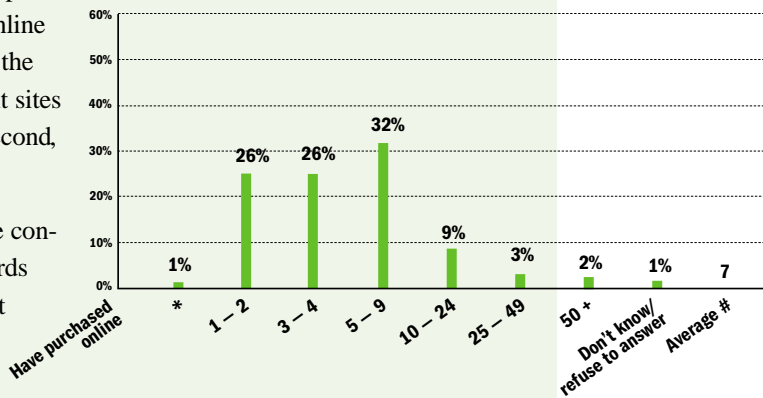
To hold onto their Web shoppers, e-tailers would also do well to concentrate on factors such as product selection and competitive prices, the key reasons Israeli online buyers said they shop at their favorite sites. For brick-and-mortar and catalog retailers, offering the same items both online and in their stores or catalogs is important to these shoppers. Eight out of 10 respondents expect the online site to have the same products as in the store or catalog, and many expect them to include online bargains in all categories.

Heading consumers' wish list for e-commerce improvements are lower prices and better selection, followed by lower shipping costs. However, nearly half of online buyers indicated that free shipping is the key factor that would get them to visit sites more often, with discount coupons second, named by 26% of respondents.

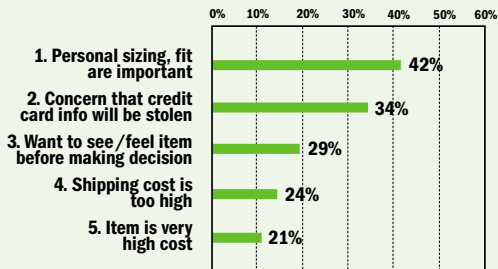
Deterrents to online shopping include concerns about personal sizing, credit cards and the need to see and feel a product first. Israeli online buyers are less concerned about shipping costs than

Trends in purchasing

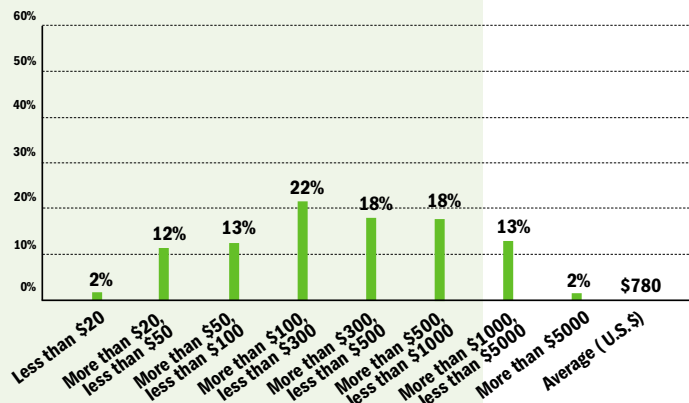
* Only purchases were financial services, travel tickets, reservations and/or magazine subscriptions.



Turnoffs



Trends in spending



consumers in many other countries. While some shoppers indicate that they have experienced problems related to fulfillment and customer service, two-thirds of those consumers said it will have little or no effect on their online shopping. However, 26% said they will no longer purchase from particular Web sites due to such problems.