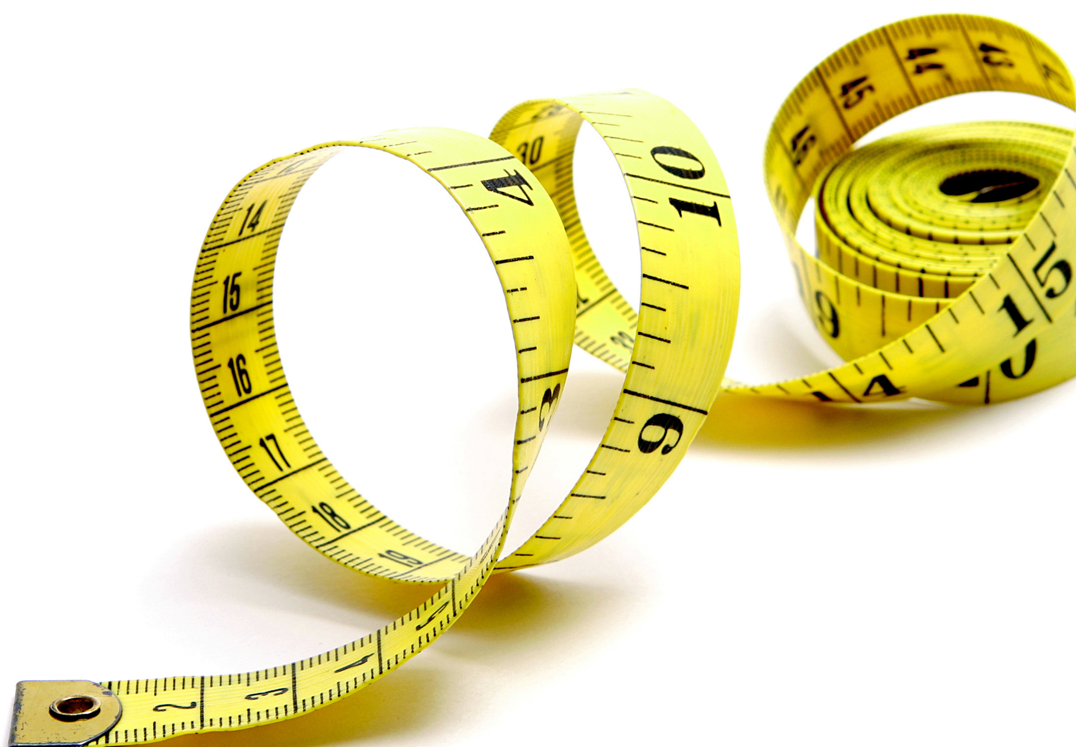
Deloitte's 2009 Online Retail Business Capability Assessment

Measuring the leaders and the laggards



E-commerce is becoming a major driver of growth in the current retail environment. More than ever, retailers depend on the online channel to grow their top line. To compete for a more sophisticated and demanding consumer, retailers are constantly striving to improve the customer experience. Specifically, we know that retailers are looking at how their online presence can support and enhance that experience.

Introduction and research overview

To assist retailers in evaluating their overall customer experience, Deloitte performs an annual benchmarking assessment of the business capabilities of the online channel. Deloitte's *Online Retail Business Capability Assessment* benchmarks the top 80 online retailers in terms of revenue as defined by *Internet Retailer's* "Top 500 Guide." These 80 online retailers account for over half of the revenue of the entire US online retail market.[1] Deloitte's methodology utilizes a framework of 135 measurable and consumer-facing business capabilities to access a retailer's online maturity level. The top 80 online retailers were evaluated against the 135 capabilities, and an objective maturity score on a 0 to 4 scale was assigned to each. Deloitte used its extensive business knowledge to assign maturity-level descriptions to the score of each capability to provide a guide for assessment (see Figure I).

Figure I. Maturity level example criteria

Maturity score	Example capability evaluation criteria: wish lists
0 Non-Existent	Wish lists are not supported
1 Basic	Basic wish list functionality is supported
2 Intermediate	Wish list products can be added directly to a shopping cart
3 Advanced	Wish lists are shareable through email
4 Super	Wish lists are shareable through user access rights

The 135 capabilities are organized into 14 summary capability groups designed to provide a competitive snapshot of the industry, retail segments (e.g., computer/electronics, mass merchants, toys/hobbies, etc.) and each individual retailer (see Figure II). The end result is a collection of over 54,000 data points of valuable benchmarking information. Highlighting this value, Deloitte collaborated in 2009 with Forrester Research's annual fielding of "The State of Retailing Online," a Shop.org study. Deloitte's *Online Retail Business Capability Assessment* provided Forrester with an objective evaluation of capabilities that are becoming increasingly important in the e-commerce market.

Figure II. Deloitte's online retail business assessment - 14 capability groups

Capability	Capability description
Customer service	Retailers provide users with multiple ways to get help and contact customer service.
Globalization	Retailers cater to global users by providing them with localized experiences.
Multi-channel support	Retailers integrate various channels to enhance the user experience and drive sales.
Payment information	Extensive payment options are offered to the customer. Clear and concise information about payment methods are made available.
Place order	Retailers offer features before and after placing the order to provide the customer with the desired information and functionality necessary to complete the transaction.
Product catalog	Retailers' product catalog information is well structured and provides a rich experience.
Recommendations	Users are interactively offered relevant products and recommendations.
Search/Browse	Product search, search results, and search result filtering capabilities are efficient and effective.
Shipping details	Retailers offer multiple shipping options with detailed explanations and associated dates.
Shipping & fulfillment	Retailers offer the customer shipping flexibility and transparency.
Shopping cart	Add to cart and order summary functionality offers a robust, efficient and consistent user experience.
User experience & personalization	Retailers provide a rich, consistent and relevant user experience based on the user login.
User management	Customers are provided functionality for managing their user information and preferences.
Web 2.0/ emerging capabilities	Retailers support emerging Web 2.0 technologies (e.g. social networking, product reviews, blogging, etc.).

[1] According to eMarketer's estimate of online retail sales (excluding travel) of $142.4 billion for 2009.

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Deloitte's *Online Retail Business Capability Assessment* provides insights for industry professionals and retail executives in several ways.

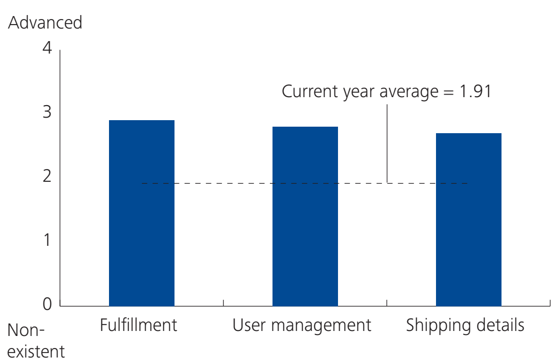
- First, it highlights industry-wide and segment-specific trends with respect to the features and services that the top 80 online retailers are offering and actively investing in for the online portion of their business.
- Second, it provides a structured and methodical way for retailers to compare their capabilities to their main competitors, their specific retail segment or to the larger industry group.
- Third, Deloitte's *Online Retail Business Capability Assessment* can be used by retailers in support of their efforts to prioritize investment decisions and evaluate the necessity of projects underway.
- Lastly, it can highlight those top 80 online retailers exhibiting effective e-commerce practices to help other retailers generate ideas for focusing investment dollars.

Assessment and results overview

Using data from Deloitte's *Online Retail Business Capability Assessment*, we explored four key areas to discover patterns and trends within the benchmark data:

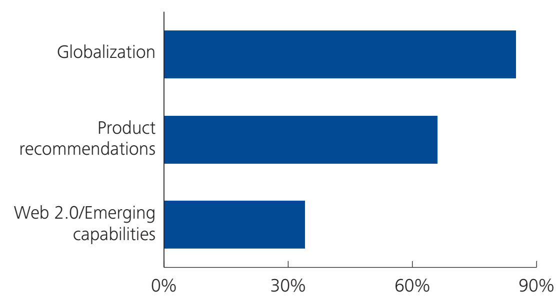
1. Maturity Assessment: We analyzed each capability group to determine which capabilities had the highest and lowest maturity this year.
Findings: The average capability score for this year's assessment was 1.91 on a scale of 0-4 with 4 being the most mature. *Shipping and Fulfillment* (2.89) and *User Management* (2.72) represent the highest scoring capability groups (see Figure III). We believe that these are the most mature and are generally considered baseline requirements for online retailers. *Web 2.0/ Emerging Capabilities* (0.73), *Recommendations* (1.36) and *Globalization* (1.38) were among the least mature capability groups within the top 80 online retailers.

Figure III. Most mature e-commerce capability groups



2. Advancing Capabilities: We determined which capability groupings and individual capabilities had the greatest changes in maturity from year to year. The purpose for this assessment was to determine where growth was strongest.
Findings: The score increased an average of 13% across capabilities during the year, representing a relatively aggressive advancement of maturity. This confirms that the top 80 online retailers continue to invest at a healthy pace to improve their online capabilities. *Globalization* (81% increase) saw the greatest advancement in maturity. We think this is in part due to US economic weakness and retailers' search for revenue growth by expanding into new markets. *Recommendations* (63% increase) also saw advancement from the previous year as the top 80 online retailers look to grow their average order size (see Figure IV). As expected, mature capability groups such as *Payment Information* (3% increase) and *Shopping Cart* (7% increase) saw minimal boosts to their maturity.

Figure IV. Key emerging e-commerce capability groups across retailers



Greatest % change in Assessment score from previous to current year.

3. Segment Comparison: We analyzed how retail segments compare to each other across specific capabilities and the broader capability groups.
Findings: As was the case last year, *Computers/Electronics* (2.12) and *Mass Merchants* (2.03) had the most mature capabilities this year within the top 80 online retailers. Segments such as *Jewelry* (27% increase) and Sporting Goods (29% increase) have traditionally scored low in this assessment. However, our data suggests that these traditionally immature segments with respect to business capabilities are rapidly increasing their online capabilities (see Figure V).

Figure V. Highest scoring and highest percentage growth capabilities by segment

Retail segment	Highest scoring capability group	Capability group with highest % growth
Computers/ electronics	Shipping & fulfillment	Globalization
Mass merchant	Shipping & fulfillment	Globalization
Toys/hobbies	Shipping details	Globalization
Hardware/home improvements	Shipping details	Globalization
Office supplies	User management	Web2.0/Emerging capabilities
Sporting goods	Shipping & fulfillment	Globalization
Books/Music/ Video	User management	Globalization
Specialty/Other	Shipping & fulfillment	Globalization
Apparel/ Accessories	Shipping & fulfillment	Web2.0/Emerging capabilities
Flowers/Gifts	User management	Globalization
Health/Beauty	User management	Globalization
Food/Drug	User management	Recommendations
Housewares/ Home furnishings	Shipping details	Product search/ selection
Jewelry	Shipping & fulfillment	Recommendations

4. Detailed Capability Maturity: We identified leading and lagging capabilities represented by the highest and lowest maturity scores.

Findings: The customer's ability to self-register (4.00) and to recover a password (3.98) saw the highest average capability maturity score. We believe the highest identified capabilities are truly core capabilities that nearly all Web sites have, or should have in place. Allowing the customer to estimate finance payments (0.01) and providing the ability to search on image likeness[2] (0.06) saw the lowest average capability scores. These emerging capabilities, and ones like them, are still relatively new. Our data suggests that few of the top 80 online retailers have invested in them at this time.

[2] Image likeness search refers to the process of a customer searching for a product based on visual input.

Emerging themes

After completing the analysis, we uncovered four key capability maturity themes (see Figure VI) that encompass findings from all levels of our analysis. We believe these themes can help retailers understand their current position, major trends, and significant shifts within the online channel.

Figure VI. Emerging themes at the top 80 online retailers

1. Retailers are enabling a reliable and transparent purchase process	2.Pictures are still worth a thousand words
3. The shopping process continues to get attention	4. Customer support receives attention

1. Retailers are enabling a reliable and transparent purchase process

Deloitte’s survey found that the largest retailers continue to focus on enriching and refining the checkout process. These retailers are providing estimated shipping dates and shopping cart recommendations, but have opportunities for enhancement with line-item shipping flexibility and express/single-screen checkout (see Figure VII).

- **Estimated shipping date:** 72% of the top 80 online retailers are providing estimated shipping dates for all products.
- **Shopping cart recommendations:** The top 80 online retailers are realizing the potential of impulse offers. Shopping cart recommendation maturity has increased 55% from the previous year, compared to an average increase of only 13% across all capabilities.
- **Line-item shipping addresses:** To increase the flexibility of the checkout process, 31% of the top 80 online retailers are allowing shipping addresses and methods to be assigned at the item level within a single checkout.
- **Express/single-screen checkout:** Some retailers may be missing conversion opportunities by failing to take advantage of express/single-screen checkout; 66% of the top 80 online retailers have yet to take advantage of this functionality.

2. Pictures are still worth a thousand words

Due to the consumer’s inability to touch online merchandise, many companies are expanding their product visualization capabilities. The top 80 online retailers are actively incorporating alternative images into their product detail pages (see Figure VIII). Sixty percent of them displayed advanced multiple product pages with 360-degree views and zoom functionality. Other attributes that are utilized include:

- **Product ratings and reviews:** Product reviews demonstrated strong maturity, with 59% of the top 80 retailers showing advanced capabilities and allowing product ratings on multiple criteria.
- **Product page recommendations:** The top 80 online retailers are adapting recommendations on the product page by offering either static recommendations (35%) or advanced dynamic recommendations (19%).
- **Use of alternative media:** The use of multimedia such as product videos or podcasts has yet to go mainstream, with more than 70% of the top 80 online retailers offering no functionality.

3. The shopping process continues to get attention

Sorting and filtering was noted as a key capability in the “The State of Retailing Online” report, and as Deloitte's *Online Retail Business Capability Assessment* survey data shows, many of the top 80 online retailers demonstrate relatively mature executions of that tactic (see Figure IX). Key capabilities include:

- **Advanced sorting and filtering:** Eighty-five percent of the top 80 online retailers have enabled both sorting and filtering capability on search results.
- **Guided selling:** Product selection assistance tools prove to be a widely missed customer experience improvement opportunity, with 71% of the top 80 online retailers showing no adaptation.
- **Faceted search:** This capability appears to be an opportunity to increase relevancy in the customer experience, with only 15% of the top 80 online retailers enabling filtering by all key product features.
- **Search page recommendations:** Recommendations on the search results page are the least mature, with only 25% of the top 80 online retailers using this space.

4. Customer support receives attention

Deloitte's survey suggests that the top 80 online retailers viewed email and phone support as the major avenues of customer service, with 86% of them showing advanced functionality (see Figure X). The underutilized customer service capabilities include:

- **Help and frequently asked questions (FAQs):** More than 50% of the retailers assessed did not offer customer self-help sections.
- **Real-time chat:** Only 34% of the top 80 online retailers showed functionality for this capability.
- **Collaborative browsing:** The ability to co-browse a Web site with other users at separate computers was nearly nonexistent; 98% of retailers assessed did not offer this capability at all.

Additional insights from this year's assessment

Globalization – Going international with the online retail channel

With souring consumer confidence and slowing sales growth at home, the top 80 online retailers have been more aggressive in looking internationally for growth. Expansion by building physical locations abroad can be risky, causing many executives to consider using the online retail channel to see how the brand and its products are received abroad before committing to physical investments. *As noted earlier, the globalization capability group registered an 81% increase over last year.*

- Our analysis revealed that the top 80 online retailers focused on improving global product availability (386% increase), regional payment options (285% increase) and localized promotions (131% increase).

Multi-channel – Establishing multi-channel capabilities

Multi-channel retailing is not about "the store," nor is it about "the Web" — it's about serving the customer, however and whenever the customer wants. An integrated multi-channel retailer satisfies a customer's demand regardless of channel. *Deloitte's Online Retail Business Capability Assessment of multi-channel capabilities saw an overall increase of over 19% from the previous year.*

- Pick-up-in-store functionality scored 24% higher from last year's results, but still was a relatively low maturity score of 0.85.
- Having a seamless integration across all available channels (Web, contact center, stores, mobile) saw a 17% increase.

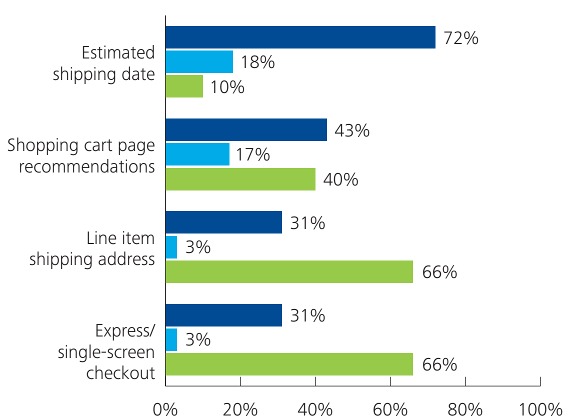
Multi-channel capabilities are seen not just as additional capabilities for the top 80 online retailers, but as a major transformation of their organization, operations and processes.

E-commerce market conclusions

Customer sophistication and the overall e-commerce market continue to evolve rapidly at the top 80 online retailers. Thus, being informed on market dynamics and keeping pace with the market trends becomes imperative. Each year, Deloitte's *Online Retail Business Capability Assessment* is designed to help retailers examine e-commerce market trends and determine which online capabilities might be prime for investment. By performing this assessment annually, Deloitte is in a unique position to provide insights on how online retailers are addressing the online market over time. This year, our findings have shown that there are a few very mature capability groups including *Product Fulfillment*, *Shipping/Handling*, and *User Account Management*. Our data suggests that these are core capabilities that online retailers must continuously develop over time, regardless of industry segment. Additionally, our analysis uncovered several quickly emerging capability groups including *Globalization, Product Recommendations and Web 2.0/Emerging Capabilities*. We believe these represent online capabilities that retailers should review and selectively target over time to match their customers' demand.

Additional figures section

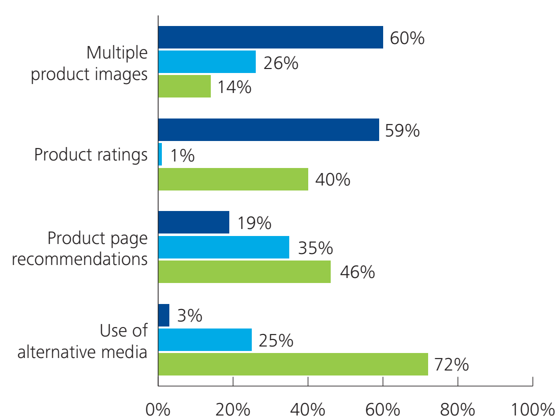
Figure VII. Reliable and transparent purchase process



- Percentage of retailers offering advanced functionality
- Percentage of retailers offering basic or higher functionality
- Percentage of retailers offering no functionality

Base: The top 80 online retailers in terms of revenue as defined by *Internet Retailer's* Top 500 Guide

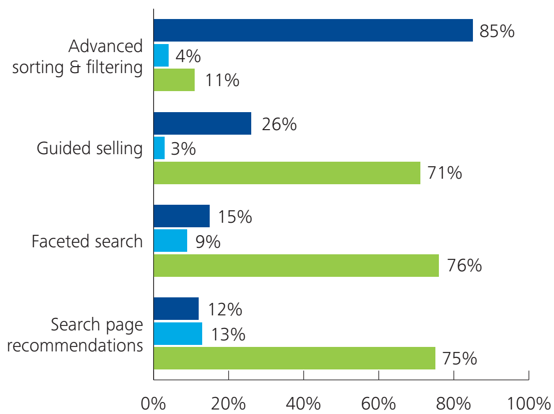
Figure VIII. Product detail pages capability adoption



- Percentage of retailers offering advanced functionality
- Percentage of retailers offering basic or higher functionality
- Percentage of retailers offering no functionality

Base: The top 80 online retailers in terms of revenue as defined by *Internet Retailer's* Top 500 Guide.

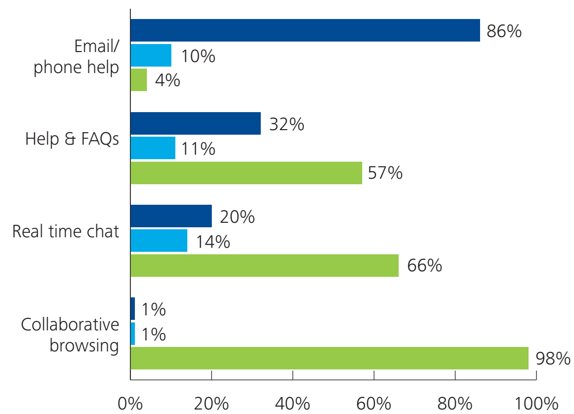
Figure IX. Product research capability adoption



- Percentage of retailers offering advanced functionality
- Percentage of retailers offering basic or higher functionality
- Percentage of retailers offering no functionality

Base: The top 80 online retailers in terms of revenue as defined by *Internet Retailer's* Top 500 Guide.

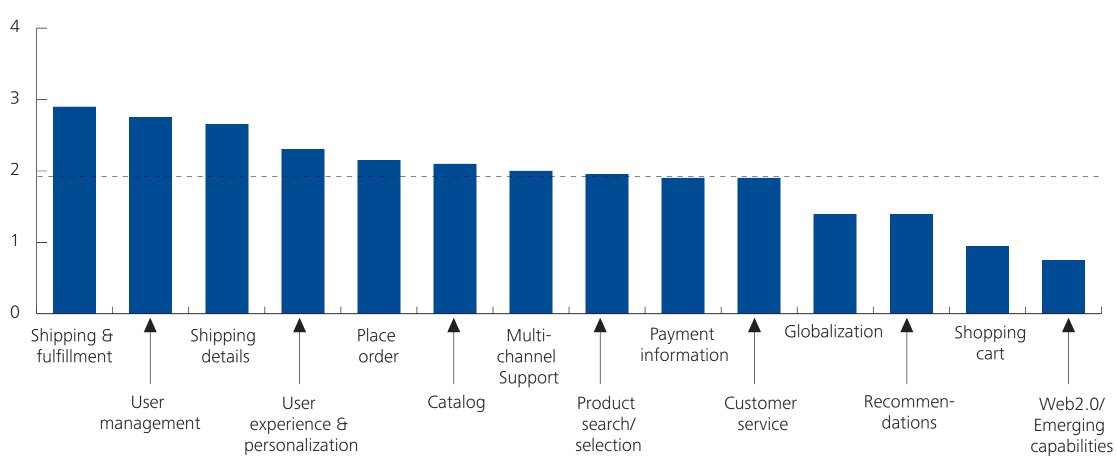
Figure X. Help and support capability adoption



- Percentage of retailers offering advanced functionality
- Percentage of retailers offering basic or higher functionality
- Percentage of retailers offering no functionality

Base: The top 80 online retailers in terms of revenue as defined by *Internet Retailer's* Top 500 Guide.

Figure XI. Average score by capability



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